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Ryder System, Inc. (R)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Ryder System Second Quarter 2021 Earnings Release Conference Call. All lines are in a listen-only mode until after the presentation. Today's call is being recorded. If you have any objections, please disconnect at this time.

I would now like to introduce Mr. Bob Brunn, Senior Vice President, Investor Relations, Corporate Strategy and New Product Strategy for Ryder. Mr. Brunn, you may begin.

Robert S. Brunn

Vice President-Investor Relations, Corporate Strategy & New Product Strategy, Ryder System, Inc.

Thanks very much. Good morning and welcome to Ryder's second quarter 2021 earnings conference call. I'd like to remind you that during this presentation, you'll hear some forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations, and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in economic, business, competitive, market, political, and regulatory factors.

More detailed information about these factors and a reconciliation of each non-GAAP financial measure to the nearest GAAP measure is contained in this morning's earnings release, earnings call presentation, and in Ryder's filings with the Securities and Exchange Commission, which are available on Ryder's website.

Presenting on today's call are Robert Sanchez, Chairman and Chief Executive Officer; and John Diez, Executive Vice President and Chief Financial Officer. Additionally, Tom Havens, President of Global Fleet Management Solutions; and Steve Sensing, President of Global Supply Chain Solutions and Dedicated Transportation, are on the call today and available for questions following the presentation.

At this time, I'll turn the call over to Robert.

Robert E. Sanchez

Chairman & Chief Executive Officer, Ryder System, Inc.

Good morning, everyone, and thanks for joining us. Before we begin, I'd like to recognize John Diez who is joining this morning's call in his new role as CFO. John was most recently President of Fleet Management Solutions and brings a wealth of experience to the CFO role, having held various senior operational and financial roles during his 20-year tenure at Ryder.

I'd also like to welcome Tom Havens, who was recently appointed the President of Fleet Management Solutions, to his first earnings call. Tom brings a great depth of experience to the leadership role at FMS from his 28-year-old career at Ryder, having most recently served as Senior Vice President and Global Chief of Operations for the FMS business.

On today's call, I'll begin with a strategic update followed by a discussion around the investments we're making to accelerate growth in our supply chain and dedicated businesses. John will take you through our second quarter results, which exceeded our expectations. I'll then review our updated outlook for 2021, discuss the significant progress we're making on actions to achieve our ROE target, and review our initiatives to mitigate the impact of future cyclical downturns on our business. Following our prepared remarks, we'll open the call for questions.

With that, let's turn to our strategic update. Secular trends continue to support our strategy to accelerate growth in our supply chain and dedicated businesses, while targeting moderate growth and increased returns in our fleet management business. We're seeing strong sales and pipeline growth across all our businesses driven by secular trends that favor outsourcing, as well as increased focus by customers on supply chain resiliency and the use of innovative technology solutions. Trends that we saw accelerate during the pandemic such as e-commerce and a demand for last-mile delivery of big and bulky items remained strong and support the strategic investments we're making in these fast-growing areas.

We remain focused on increasing returns and are pleased with the significant progress we're making to achieve our ROE target. Multiple years of lease pricing increases that began with a focus on de-risking our portfolio through lower residual assumptions and cost updates are benefiting returns. Most recently, we began implementing additional pricing actions to improve future lease returns using data analytics around customer segmentation, application, equipment type and other key drivers of lease returns. Strong freight conditions combined with our initiatives resulted in better than expected results in used vehicle sales and rental. We're seeing the benefits of dynamic pricing in used vehicle sales in rental as well as our prior investments to increase retail used vehicle sales capacity.

We now expect to achieve ROE in the range of 16% to 17% this year, above our long-term target of 15%. Later in the call, we'll review additional enhancements we're making to our playbook to improve returns over the cycle.

Moving on to cash flow, our year-to-date free cash flow is $602 million, down $10 million from the prior year, as higher vehicle capital spending was largely offset by higher proceeds from the sale of used vehicles and property. We're increasing our full-year free cash flow forecast to $650 million to $750 million, up from $400 million to $700 million, primarily to reflect the anticipated impact from delays for new vehicle deliveries from the OEMs.

We're encouraged by our performance and by the market trends we're seeing in the areas that we're investing for future growth. We continue to invest in technology and other areas to address industry disruption in order to enhance our business model and position the company for long-term success.

Slide 5 provides an overview of the investments we're making to drive accelerated growth in our supply chain and dedicated business, a key element in our strategy to generate higher returns and long-term profitable growth. Developing new and enhanced products such as Ryder Last Mile, e-commerce fulfillment and freight brokerage is critical for us to leverage growth trends in supply chain and dedicated. Innovative technology enables us to deliver value-added logistics solutions that are in high demand.

RyderShare, our visibility and collaboration tool, is a strategic differentiator for us and its capabilities have moved to the forefront of our sales discussions. RyderView is our proprietary customer interface that supports self-scheduling and delivery execution for Ryder Last Mile. Enhanced order management and fulfillment software supports our growing presence in e-commerce fulfillment.

Sales and marketing effectiveness is key to our brand awareness and communicating the broad array of logistics and transportation solutions we offer. Our Ever better campaign and increased digital marketing presence have driven an increase in qualified sales leads. We're also expanding our sales force and investing in their capabilities to drive additional growth opportunities.

RyderVentures, our corporate venture capital fund, aims to invest $50 million over the next five years through direct investment in startups, primarily where we can partner to develop new products and services for our customers. We've invested in areas including e-commerce micro-fulfillment, a tech-enabled hub-and-spoke transportation network and an AI-enabled dispatch product for small- to medium-size fleets.

In addition, we continue to evaluate strategic M&A opportunities focused on adding new capabilities, geographies and/or industry verticals, which we view as another important way to accelerate growth, especially in our supply chain and dedicated business.

Slide 6 takes a closer look at Ryder Last Mile, which provides final mile delivery of big and bulky goods through a nationwide network of hub and agent locations that service every ZIP code in the continental US. The Ryder Last Mile offering was launched in 2018 as a result of a strategic acquisition. Since then, online purchases of big and bulky goods such as furniture, exercise equipment and home appliances have accelerated, driving demand for a seamless home delivery experience. We've been pleased with the strong revenue growth in Ryder Last Mile.

RyderView is our proprietary customer-facing technology that allows customers to self-schedule their deliveries and provides them with real-time delivery updates. Our centralized customer support team is key to the execution of a qualified delivery experience. We carefully monitor customer delivery feedback to ensure that service levels are maintained.

We're making strategic investments in this area in order to continue to enhance the capabilities and customer experience for this important product offering. We're enhancing RyderView's capabilities and plan to launch version 2.0 later this year. Enhancements include easier and more convenient self-scheduling and rescheduling of deliveries, as well as the option to schedule deliveries at the point of sale. We're enhancing the software used for delivery route optimization. We're also rolling out a customer experience that is branded for our customers, the retailer, so that RyderView 2.0 serves as an extension of their brand.

We continue to expand our geographic footprint in order to place us closer to the end customer and improve delivery speed. We recently announced the addition of two new fulfillment centers in Milwaukee and Philadelphia. In addition to future geographic expansion, we'll also look at opportunities to add new services, capabilities, or industry verticals through strategic M&A or RyderVentures. We're confident that RyderView 2.0 will be a market differentiator that will enhance the customer experience and propel further profitable growth through Ryder Last Mile.

Now, I'll turn the call over to John to discuss second quarter results.

John J. Diez

Chief Financial Officer & Executive Vice President, Ryder System, Inc.

Thank you, Robert. Total company results for the second quarter are on page 7. Comparisons reflect COVID effects in the prior year, which most significantly impacted second quarter 2020 results in used vehicle sales, rental, and SCS automotives, all which have recovered quite well since then.

Operating revenue of $1.9 billion in the second quarter increased 18% from the prior year, reflecting double-digit revenue growth across all three of our business segments. Comparable earnings per share from continuing operations was $2.40 in the second quarter, as compared to a loss of $0.95 in the prior year. Higher earnings reflect improved performance in FMS from higher gains on the sale of used vehicles, a declining depreciation expense impact related to prior residual value estimate changes, and improved rental and lease results.

Return on equity increased reflecting the declining depreciation impact, higher gains, and improved lease and rental results. We expect continued improvement in ROE, our primary financial metric, as we move past the earnings impacts from prior residual value estimate changes and COVID, and continue to benefit from our actions to increase returns. Year-to-date free cash flow was $602 million, below prior year as planned.

Turning to FMS results on page 8, Fleet Management Solutions operating revenue increased 14%, primarily reflecting higher rental and lease revenue. Rental revenue increased 58%, driven by higher demand and pricing. Rental pricing increased by 13%, which is significantly higher than we've seen historically, reflecting pricing actions taken over the past year, prior-year COVID effects and a larger mix of higher return pure rental business in the current quarter.

ChoiceLease revenue increased 5%, reflecting higher pricing and miles driven, partially offset by a smaller fleet. FMS realized pre-tax earnings of $158 million or up by $262 million from the prior year. $131 million of this improvement resulted from lower depreciation expense related to the prior residual value estimate changes and higher used vehicle sales results.

Improved rental and lease results also significantly contributed to increased FMS earnings. Higher lease pricing and miles driven were partially offset by a smaller fleet. In rental, higher demand and pricing drove higher results. Rental utilization on the power fleet was 80% in the quarter, significantly above the prior year of 56%, which included COVID impact, and was close to a historical second quarter high.

FMS EBT as a percentage of operating revenue was 12.9% in the second quarter and surpassed the company's long-term target of high-single digits. For the trailing 12-month period it was 6.3%, primarily reflecting higher depreciation expense from prior residual value estimate changes.

Page 9 highlights global used vehicle sales results for the quarter. Used vehicle market conditions continue to be robust with strong demand meeting tight supply. Globally, year-over-year proceeds were up 73% for tractors and 72% for trucks. Sequentially, tractor proceeds were up 22% and truck proceeds were up 27% versus the first quarter.

Higher sales proceeds primarily reflect significantly improved market pricing. As you may recall, in the second quarter of last year, we provided a sensitivity noting that a 10% price increase for trucks and a 30% price increase for tractors in the US would be needed by 2022 in order to maintain current policy depreciation residual estimates. Since the second quarter 2020, US truck proceeds were up 59% and tractor proceeds were up 67%.

Although these increases are not age or mix adjusted, they are generally indicative of pricing improvements that have occurred since the second quarter of 2020. As such, with these improvements, average pricing in the US for trucks and tractors is above residual values applied for depreciation purposes.

During the quarter, we sold 6,000 used vehicles, down 5% versus the prior year, reflecting lower trailer sales. Sequentially, sales volumes declined due to lower inventory levels. Used vehicle inventory held for sale was 4,300 vehicles at quarter-end and is below our target range of 7,000 to 9,000 vehicles. Inventory is down by 9,700 vehicles from the prior year and down by 1,900 vehicles sequentially.

Turning to supply chain on page 10, operating revenue versus the prior year increased 32% due to new business and increased volumes and COVID effects in the prior year. Growth was driven by double-digit percentage increases in the automotive, retail, consumer packaged goods and industrial sectors.

SCS automotive business experienced intermittent customer plant shutdowns in the quarter due to a global shortage of parts. We have included an estimated impact from potential shutdowns in our balance-of-year forecast as the situation remains fluid.

SCS pre-tax earnings increased 11%, benefiting from revenue growth, partially offset by strategic investments in marketing and technology, as well as increased incentive compensation and medical cost. SCS EBT as a percent of operating revenue was 7.7% for the quarter and below the company's long-term target of high-single digits. However, it was 8.2% for the trailing 12-month period, in line with our long-term target of high-single digits.

Moving to dedicated on page 11, operating revenue increased 12% due to new business and higher volumes. Revenue growth from new DTS business can be largely attributed to wins from competitors and private fleet conversions. DTS earnings before tax decreased 38%, reflecting increased labor costs, higher insurance expense and strategic investments.

Labor costs are being impacted by an exceptionally tight driver market. Driver turnover is up significantly and open positions are taking longer to fill. We're working with customers to adjust rates where needed to recoup the incremental wage and other costs, but this will take some time to address. We're also continuing to implement automatic contract triggers that allow for more real-time wage cost adjustments.

We've increased our recruiting head count and remain focused on maintaining a quality work environment where most drivers get home every day while providing competitive wages and benefits. Our strategic investments are positively impacting sales performance and we expect this to provide accretive earnings in the future. DTS EBT as a percentage of operating revenue was 5.1% for the quarter. It was 6.9% for the trailing 12-month period, below our high-single-digit target.

Turning to slide 12, lease capital spending of $501 million was above prior year as planned due to increased lease sales activity. Lease returns are benefiting from pricing initiatives and support a more normalized lease capital investments. Rental capital spending of $397 million increased significantly year-over-year, reflecting higher planned investment in the rental fleet. We plan to grow the rental fleet by approximately 13% in 2021, mostly in light- and medium-duty vehicles, in order to capture increased demand expected from strong e-commerce and freight market activity.

Our full-year 2021 forecast for gross capital expenditures of $2.2 billion to $2.3 billion is at the high end of our initial forecast range and is shown in the chart at the bottom of the page. This is up from 2020 when spending was well below normalized replacement levels primarily due to COVID.

Turning to slide 13, our 2021 free cash flow forecast has increased to a range of $650 million to $750 million from our previous forecast of $400 million to $700 million. This reflects the expected impact from OEM vehicle delivery delay due to the chip shortage. 2021 forecast of free cash flow is below prior year's record level under COVID conditions, but is well above our historic levels. It also reflects our strategy to balance growth in the capital-intensive FMS business, with generating positive free cash flow over the cycle.

Balance sheet leverage this year is expected to finish below 250%, which is the bottom end of our target range. Importantly, as Robert mentioned, we now expect to achieve ROE of 16% to 17% this year, with a declining depreciation impact and a stronger than expected recovery in the used vehicle sales market. Rental demand recovery in lease pricing initiatives are also expected to contribute to our increased ROE forecast. Higher year-to-date comparable EBITDA, which excludes the impact of gain from losses on used vehicle sales reflects revenue growth and improved operating performance.

I'll turn the call back over to Robert now to discuss our outlook.

Robert E. Sanchez

Chairman & Chief Executive Officer, Ryder System, Inc.

Thanks, John. Turning now to our EPS outlook on page 14, we're raising our full-year comparable EPS forecast to $7.20 to $7.50 from a prior forecast of $5.50 to $5.90, and well above a loss of $0.27 in the prior year which included COVID effects.

We're also providing a third quarter comparable EPS forecast of $1.95 to $2.05, significantly above our prior year of $1.21. Third quarter earnings are expected to be down sequentially, reflecting lower expected gains from fewer used vehicles sold due to lower inventory levels as well as the estimated impact on SCS automotive due to the chip shortage and plant retooling. Our forecast assumes that strong freight and economic conditions continue into 2022 and a continuation of the current tax policy.

Lease, rental and used vehicle sales performance are the key drivers of higher expected results. We expect lease to benefit from our pricing actions, increased sales activity and improved operating performance. We also expect pricing in rental and used vehicle sales to remain strong. We're forecasting quarterly gains around $35 million for the balance of the year, reflecting higher pricing, partially offset by fewer vehicles sold due to low inventory levels.

In FMS, the depreciation impact from prior residual value estimate changes is expected to continue to decline, resulting in a year-over-year benefit of approximately $40 million in the third quarter of 2021. This benefit does not include any potential impact from gains or losses on sale or valuation adjustments.

Accelerating outsourcing trends in supply chain, including growth in e-commerce and last-mile delivery, support strategic investments in new products and technology aimed at driving future growth opportunities. We expect labor markets to remain under pressure, particularly with drivers. Private fleets are also experiencing this pain point, which we expect will continue to drive additional sales opportunities for our dedicated offering. We are focused on initiatives to attract and retain drivers and be the employer of choice.

In supply chain and dedicated, we're on track to meet or exceed our high-single-digit revenue growth targets. Supply chain and dedicated returns are also anticipated to be impacted by higher labor cost as well as strategic investments in new technology and our brand awareness campaign. We expect supply chain margins to decline in the back half of the year from the second quarter levels due to the impacts of chip shortages and plant retooling by certain automotive OEMs.

Finally, the semiconductor shortage is expected to delay the delivery of some vehicles in FMS. We expect the impact of delivery delays to be offset by higher lease sales activity in the first half of the year, as well as higher rental utilization and pricing.

Turning to slide 15, I'd like to provide a brief reminder regarding our planned actions to increase returns and achieve our ROE target. As shown on the chart, the biggest driver is moving past higher levels of depreciation impact related to prior residual value estimate changes.

Slide 16 highlights the progress we're making on the five key areas from the prior page. Strong used vehicle market conditions are expected to continue in 2021 and we're capitalizing on those trends through pricing actions and our expanded retail sales channel. We expect the earnings benefit from the decline in depreciation impact to continue.

In rental, strong year-to-date performance and our planned rental fleet growth are supported by strong pricing and demand trends. In FMS, results continue to benefit from our lease pricing initiatives. Revenue on lease vehicles increased year-over-year by mid-single digits, reflecting these pricing actions, with additional opportunity going forward as we replace expiring leases at higher pricing levels.

Our multiyear maintenance cost initiative delivered more than $50 million in annual savings through the end of last year and we are on track to achieve an additional $30 million in savings in 2021. Cost actions also include exiting underperforming assets and locations that we expect will improve our long-term returns. We're investing in strategic initiatives to accelerate growth in our higher return supply chain and dedicated businesses.

Slide 17 provides an updated view of the expected performance of our lease portfolio as a result of the pricing actions taken. Substantially all leases, with the exception of those signed in 2013, are expected to perform above our target return. The leases signed in 2013 represent only 8% of our lease fleet. The majority of the power fleet in this cohort will be replaced in the balance of 2021 at higher pricing. As a result of our pricing and cost actions since 2014 as well as the analytics-driven pricing changes we are incorporating now, we expect the returns on our lease portfolio to continue to increase as the portfolio turns over to more recent and higher returning vintage years.

Although we are encouraged that we expect to exceed our target ROE of 15% in 2021, we remain focused on taking additional actions to position our business to generate long-term returns of 15% ROE over the cycle. As such, we're implementing actions to mitigate the impact on returns from future cyclical downturns. These actions include maintaining balance sheet flexibility through a disciplined capital allocation strategy that will enable us to pursue higher return investments, and strategic and M&A opportunities, as well as share repurchases.

In ChoiceLease, we're replacing certain lease vehicles prior to contract expiration during an upcycle in order to reduce the number of used vehicles that we need to sell during a downturn. In rental, we're planning to shift our asset mix for better returns by growing our light- to medium-duty truck fleet, as we view this asset class as less susceptible than heavy-duty tractors to the impacts of the freight downturn.

This quarter, we completed an analysis of our residual values and life expectancies of our entire fleet, which included, among other factors, renewing vehicles by class, condition, expected sales, availability of equipment and technology changes. As part of this review, we also factored in a potential future cyclical downturn on used vehicle prices.

As a reminder, in recent years, we significantly lowered the residual value estimates for our entire fleet to a level where used tractor prices have only been below these estimates in 4 of the last 21 years. However, based on our most recent analysis, we made an additional modest reduction in residual values, primarily for certain tractors. This change is intended to further reduce the probability of losses or need for accelerated depreciation during a potential cyclical downturn, even if tractor pricing returns to historical trough levels like they did in the early 2000s and in 2020. We expect these changes will increase depreciation expense in 2021 by $18 million, representing approximately 1% of total depreciation expense for the year.

That concludes our prepared remarks this morning. Before we go to questions, please note that we expect to file our 10-Q later today. We had a lot of material to cover today, so please limit yourself to one question each. If you have additional questions, you're welcome to get back in the queue and we'll take as many as we can.

At this time, I'll turn it over to the operator to open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll first hear from Scott Group from Wolfe Research.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey. Thanks. Morning, guys.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Morning, Scott.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Can you help us – I think in the beginning of the year, you talked about a $4 tailwind turnings this year from depreciation and gains. Where are we now? I'm just trying to understand how much of the guidance is reflective of used pricing improvement and how much is beyond that?

And then maybe to that last point you were trying to make, Robert, if we assume that used prices fall next year, not to trough levels, but just something a little bit more normal, can you just talk about the puts and takes of gains on sales probably down next year? But would depreciation go up or would that still be going down next year as an offset? I think we're just trying to understand the ability to grow earnings again next year if used prices start to normalize. Thank you.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. Let me answer the back half of that question and I'll let John answer the first part of the question. In terms of where we are in used truck pricing and what happens next year, obviously used truck pricing has gone up this year and continues to go up. So we would expect the pricing in the market to continue to go up through this year and into next year. What's driving that is certainly an improving economy with a limited number of new trucks being able to hit the market with, among other things, the semiconductor shortage hampering that. So I don't see that getting resolved here in the next six months. I think that's going to continue, and it usually takes a while for that to bleed through.

So, as we go into next year, I would expect to still have relatively strong used truck market. But assuming that used truck pricing were to slow down at some point, which it will at some point, the way you should look at it is that gains will come down, right? So, whatever the gains we get into next year will come down, but the changes that we've made around our residual values, the likelihood of having to take any type of accelerated depreciation or any type of loss has been greatly reduced.

If you think about it, we've lowered our residual value significantly in 2019 and again in 2020, and now we've taken some additional action that will reduce tractor residuals for certain tractors down to trough levels. So, even at a trough level for those vehicles, we would not be taking losses or additional accelerated depreciation.

So, if you think about this, $150 million in gains, you've got $150 million in gains this year. As we go into next year, you're going to have a benefit of less depreciation expense from the residual value changes that we made of – it was $100 million, now we're at $85 million. So it's going to be $85 million of benefit next year on depreciation.

So you can do the math on what happens to gains. If gains were to come down $85 million, you've got an offset of $85 million from the benefit that you're going to get on the roll-off of depreciation, so your earnings then would be flat. So, that would be cutting your gains about in half and you'd still be flat in terms of year-over-year impact of depreciation and gains.

Let me hand it over to John now to answer the first part of your question.

John J. Diez
Chief Financial Officer & Executive Vice President, Ryder System, Inc.

A

Yeah, Scott. Let me walk you back. The guidance we had provided at the beginning of the year was a roll-off of the depreciation residual value estimate changes that we have made of about a benefit of $220 million year-over-year in 2021. That number, if you look at the tables we're presenting, we're projecting that benefit now to be year-over-year about $180 million, so slightly below the beginning of year forecast, and that's really attributed to changes in the fleet over the last six months. So, that gives you some perspective.

Keep in mind, our gains, as you heard from Robert, are significantly higher than what we had forecasted or baked into our beginning of year forecast through the year, and we're projecting that to finish about $150 million for the full year.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. Super helpful. Can I just clarify one thing that I think could help?

John J. Diez
Chief Financial Officer & Executive Vice President, Ryder System, Inc.

A

Sure.

Scott H. Group
Analyst, Wolfe Research LLC

Q

How much of a decline in used prices next year would equate to an $85 million drop in gains? Is there a good rule of thumb?

John J. Diez
Chief Financial Officer & Executive Vice President, Ryder System, Inc.

A

Well, Scott, what you can look at is if you look at our proceeds levels, they're typically in that $500 million level. We're up to $600 million. So, a 20% drop there in proceeds will give you kind of the equation there. But for $85 million, you're looking at a more severe drop, right? You're going to be looking at close to a 15% drop in proceeds.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

And that would be – and just to be clear, Scott, that would be across all classes, trucks and tractors. Where you have more of the volatility historically is around the tractor class. So you assume that the tractors would have to drop double that in order to make up the $85 million.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. So it sounds like you think the net of it is it's still likely that we'll have a net used tailwind in 2022?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Net used tailwind, right. It's a little early to tell, but from where we sit today, yes.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. Thank you, guys. Appreciate it.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Thanks, Scott.

Operator: [Operator Instructions] Next we'll hear from Todd Fowler of KeyBanc Capital Markets.

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks and good morning. Robert, at the end of your prepared remarks, if I understand correctly, it sounds like that you're saying that there's additional $18 million of depreciation coming in this year and it sounds like that that's policy depreciation. I guess, number one, did I get that right? And then number two, kind of building on what Scott was asking about, if we follow that through into 2022, is there additional policy depreciation that's coming in next year that offsets some of the $85 million benefit on the accelerated side?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah, that's a good way to think about it. The $18 million, you can think about it as policy. It's more of our longer-term view. And again, it's really we've talked about one of the things that we could do to mitigate future accelerated and losses, and this was an additional step that we've taken based on our ability to have more visibility around cycles. But to answer your question, is it additional headwind, it is included in the $85 million estimate I just gave you. So, if you think about...

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

...we had originally said $100 million, now it's $85 million.

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Perfect. Yeah, so that's the bridge there, so that helps. Okay, good. Thank you. And then just on the strength here in rental in the quarter, the 80% utilization, is there a way to kind of tease out how much of that you think is cyclical demand versus how much of that is either customers waiting for lease vehicles due to some of the constraints on the OEM side? And what are your expectations for utilization in lease pricing and guidance, as you move into the third and fourth quarter? Thanks.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. I'll let Tom give you a little bit more color on that in a second, but I'll tell you the rental demand is very hot right now. If you think about it, the economy has picked up. There's a shortage of capacity in the freight market, plus e-commerce really continuing to ramp up. So there's just not enough trucks to handle all the demand that's out there. So it's kind of a great environment for rental.

To your question on how much of it is coming from customers waiting for lease trucks, it is actually – more of it is coming from, as you heard in John's statements, coming from just pure rental customers that are coming in and renting our vehicles to meet their demand, so a very good environment. You saw the pricing power that we have and how much pricing has gone up, 13%.

So we had a quarter of 80% – I guess it was 80% utilization this quarter, which for second quarter I think is our second highest ever. So we expect that utilization to continue to stay very high for the balance of the year. I'm not going to call it red light, but certainly at a very good clip. And we are going to be bringing some additional vehicles in in the second half of the year that are being delivered.

So, Tom, you want to add some – anything to that?

Tom Havens
President, Fleet Management Solutions, Ryder System, Inc.

A

Yeah. Just to be clear, it is not tied to customers waiting for lease. It's really demand primarily in two key places in the external freight environment that I think everyone understands what's going on there and along with e-commerce. When we think about the coming quarters, we expect the rental fleet to continue to increase. We haven't received our full rental orders, so our fleet is expected to increase in the third quarter. We're also expecting the pricing trends to continue as well. So, as Robert mentioned, we're up 13% year-over-year. We also expect pricing to be up double digits year-over-year in both the third quarter and the fourth quarter. So the demand out there is strong.

I'll just mention two other things. There is still opportunity we believe in the event type companies that are out there that typically rent from us this time of year. They haven't completely come back to the demand levels that we've typically seen in the past. So we're expecting hopefully in the third quarter that the event companies will largely come back as well. So there's still maybe some opportunity in demand that's out there that we haven't fully gotten past the impacts of COVID.

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. That's great...

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

I'd also...

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Go ahead, Robert.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

I'd also add to that that we're very pleased with the demand we're seeing around our light- and medium-duty trucks, which is the area we've been making more investments in as e-commerce, and those types of companies have really ramped up. And the good news is that historically that is less tied to the freight cycle. That demand tends to be less cyclical than the Class 8 tractor demand. So we're very pleased with what we're seeing on that side of it also.

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

Good. That sounds good. And I might be helping you guys with some of that event demand here in the third quarter, so thanks for the time.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

All right. We'll get you a good deal, Scott.

Todd Fowler
Analyst, KeyBanc Capital Markets, Inc.

Q

I'm just [indiscernible] (0:40:58), not actually renting for, but thanks, Robert.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

All right.

Operator: And next we'll hear from Justin Long of Stephens.

Justin Long
Analyst, Stephens, Inc.

Q

Thanks and good morning. Maybe I'll follow up to that last topic on rental. Thinking about the percentage of that fleet that's light- and medium-duty today, would you mind sharing what that number is and where that could potentially go? And I definitely understand the point that it's less cyclical, but maybe you could comment on the impact this could have to margins from a mix perspective, if at all?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. I'll let the team get you the number on the percentage, but this is something. As we've looked at making investments in rental as part of our – as we talked about, our disciplined capital allocation strategy. If you look beneath – you look underneath the covers on our rental product line, we found that the truck rental side versus the tractor rental side, we've being seeing more consistent demand as e-commerce. And it's a pretty broad industry that really rents those trucks – industry groups that rent those trucks, versus our Class 8 tractors are typically rented to transports and trucking companies that are more cyclical.

So, just from a return on capital and a return on equity standpoint, the investments on the truck side certainly have been historically better and higher, and that's why we've looked to increase our investment there.

So, John, do you have that number in terms of the percentages?

John J. Diez
Chief Financial Officer & Executive Vice President, Ryder System, Inc.
A

Yeah. So, just to give you an idea of our rental fleet mix, about 50% is trucks versus the rest of the fleet. But as you heard from Tom a little bit earlier, we haven't received the full capital that we put in order for for this year. So we expect the truck count to continue to move up and we're looking to move that 50% up to 52% to 53% over the next 12 to 18 months as we continue to make those investments. So, that will give you an idea of kind of the fleet mix. And then as we move forward into future periods, that's the level of activity we're going to continue to grow it by going forward.

Justin Long
Analyst, Stephens, Inc.
Q

Okay. That's helpful. And maybe as just a quick follow-up, any initial thoughts on CapEx for 2022?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Yeah. We haven't given guidance for 2022. The one thing I will tell there's – in our forecast for this year, we did talk about delays in OEM deliveries. So you've probably got $200 million from this year that are being pushed into next year, as the capital will be spent really next year, that's when we're going to get the vehicles. That's just delays in OEMs getting the vehicles out because of the semiconductor challenges.

So, yeah, you would expect CapEx will go up next year, not only from the $200 million that are going across, but also as we grow our lease fleet next year, we expect to have some growth next year on our lease fleet and make some rental investments. So, yeah, CapEx will be up next year versus this year.

Justin Long
Analyst, Stephens, Inc.
Q

Okay. I'll leave it there. Thanks for the time.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Thank you, Justin.

Operator: Stephanie Moore of Truist.

Stephanie Moore
Analyst, Truist Securities, Inc.

Q

Hi. Good afternoon. Thank you for the question.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Hi, Stephanie.

Stephanie Moore
Analyst, Truist Securities, Inc.

Q

I was hoping you could talk a little bit more about EBIT margins across segments. FMS actually coming in above long-term targets, but the supply chain and dedicated businesses are slightly below. Maybe if you could walk through what you view are more temporary factors during the quarter really across the segments?

And then, taking a longer-term view, why you remain confident in some of these long-term targets, including why you think FMS shouldn't actually be higher just based on the 2Q performance and really the pricing actions that have been put into place than I think you called out 2014. So, any color there would be helpful. Thank you.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. Let me start off with FMS because I think it's a great question. Look, we set a target for FMS of high-single-digit margins, partially driven by the fact that we know we've got a lot of depreciation impact from these recent residual value changes that we made. That rolls off but it takes multiple years for that to happen. So, obviously, with the number that we posted this quarter of over 12%, we are very encouraged by that. $50 million or plus of gains are included in that number, so we can't lose sight of that.

But as we perform well over the next few quarters and we go into next year, obviously we'll continue to reevaluate those targets and see if there's opportunities to move those up. Certainly, as the depreciation rolls off, the likelihood of being at the high end of that or above that increase as long as the rest of the business continues to perform the way it is. We're also very encouraged by the benefits of the lease pricing changes that we've made. So certainly there is – we continue to evaluate that and there's a possibility of increasing that at some point.

In terms of supply chain and dedicated, as you mentioned, supply chain is above for the quarter. But if you look at – is above for the 12 months, but is below in the quarter. It's primarily driven by the automotive shutdowns that are impacting that part of the business due to the semiconductor challenges and also some retooling that's going on and also some of the driver wage issues. We expect both of those to be transitory. They're not going to be here forever. So we expect supply chain to be able to get back into that high-single-digit range along with dedicated. Dedicated is primarily a driver wage issue, along with some insurance headwinds that we had and some investments that we're making in growth.

So, again, all three of those I think are transitory and they're transitory because, as driver wages have to go up, we have to go back to our customers and recapture that in the rate which we feel confident in our ability to do it. Sometimes just – especially when something that's happened as quickly as what we've seen in the last six months, it takes us a few quarters to get that done and that's what we're in the middle of. So we still feel really good about the targets that we've got out there for both supply chain and dedicated.

Stephanie Moore
Analyst, Truist Securities, Inc.

Q

Great. That's really helpful. Thank you so much.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Thank you, Stephanie.

Operator: Next we'll hear from Brian Ossenbeck of JPMorgan.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for taking the questions.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Hey, Brian.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Hey, Robert. Maybe just a quick follow-up on the dedicated side. Things are really tight and should get a little bit looser over time. Just wanted to see if you could give us some additional color on your confidence in getting those driver wages passed through? And also if you're seeing anything, I guess, more on the warehousing side to the extent that's affecting SCS? And then, secondly, can you just give us your updated thoughts on the lease size or what you think about...

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

I'm sorry. I missed that last part of your question, Brian. We might have lost Brian...

Operator: And it looks like Brian may have disconnected his line.

Operator: We'll move on to the...

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Let me answer.

Operator: Go ahead.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Okay. Let me answer the question around what we're seeing around driver wage. Actually, let me handed it over to Steve. Steve can give you color on the driver wages and also what we're seeing around warehousing.

J. Steven Sensing
President-Global Supply Chain Solutions, Ryder System, Inc.

A

Yeah. Brian, from a driver wage standpoint, I think some of the key things that we've done in the quarter working with the customers have begun to stabilize the turnover. We did see an increase of about 20% to 25% across key areas in the country. But I think the team has done a really nice job and working with the customers, as Robert said.

It would take us a couple of quarters to call all of it back, but I think most of our customers understand the challenge that we're up against. A key piece for us is about 85% of our jobs are home every night or home every other night, so very attractive. We are seeing applications on the increase here the last couple of weeks, so that's a positive sign as well.

And then, on the warehousing side, we started seeing it around the end of Q1 into Q2. We are in those discussions as well. About 50% of our business on the warehousing side is cost-plus, so we have that structured in the contract with our customers and the other transactional business we're working account-by-account to get those covered as well. But I would expect it to continue certainly through the end of the year.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Brian, are you back? All right. Let's move on and maybe when he gets back, he can get back on it. I want to make sure we don't miss the second part of that question. All right. Operator, go to the next question.

Operator: Jordan Alliger of Goldman Sachs.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, hi. I'm just following up on an earlier question. I know you haven't given guidance for 2022. Obviously, this year's results are quite excellent. Is the key to getting profit growth on top of this year for 2022 going to be driven or need to be driven by dedicated and supply chain getting to those target levels?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Well, not necessarily. I think certainly as we go into next year, there's a lot of – you think about each of the areas, supply chain should see improvement. Again, barring continued or more severe, if you'd say, semiconductor shortages, which I don't think anybody is forecasting. I think most people are forecasting we get beyond that certainly as we get into next year. So it's the improvement in supply chain along with growth that we're getting in. We're seeing really strong sales in both supply chain and dedicated that'll start to produce earnings next year.

On the dedicated side, same thing, is we are able to negotiate these wage increases into our rates. We're going to see margins improved and we're going to have a bang-up year in terms of sales on the dedicated side. So I'm expecting really strong sales from both supply chain – very strong revenue growth, if you will, next year from both supply chain and dedicated.

Along with – on the FMS side, I think we still expect to see some good rental demand next year as it'll take a while for capacity to catch up with demand on the e-commerce and freight side. Lease, we've had had lease decline the last two – this year and last year. We'll start to see lease come back, which should help us from a return standpoint.

And then the net-net of what we just talked about of used vehicle gains with the depreciation benefit probably being a push or a plus, along with can't forget the maintenance cost initiatives that we've got in place. So, a lot of positives going into next year, I would say, although I'd tell you it's still early, right? We're in July. We've still got a few more months to wrap up this year and we'll be in a better position to give you guidance for next year here later into this year and into 2022.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Just as a quick follow-up on dedicated with the driver issues, presumably, while the pipeline is strong, there has been delays in getting things going. Would that suggest that as the drivers loosen up and we go into next year, there could be an additional surge from projects that had to be held off this year?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. We haven't really – I don't think we've had an issue with holding off projects because of...

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

...driver shortages. We've been able to get them started. Look, Ryder employs over 10,000 professional drivers. So we're a very large employer. We've got a great recruiting network. So we're typically able to find drivers where others can't. Obviously, in some cases, we have to pay more than what we had expected or as the market smooths, but that to only go back to the customers and make sure we have those discussions and get the adjustments made.

So, no, I wouldn't say necessarily we're being held back by that. I think it's just been the timing of when deals are happening. But we're certainly looking at for the balance of this year for the full year releasing a dedicated revenue growth in that high-single-digit to double-digit level.

Jordan Alliger
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: And we'll hear from Brian Ossenbeck of JPMorgan.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Hey, Brian.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Hey. Sorry about that.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Welcome back.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Yeah. I'll just read the transcript for the first part, but the second one was really just going back to your point there on lease. Robert, do you have a sense of your ballpark how big you think you want to grow the lease fleet next year, especially as you're working more on the pricing, getting some strong pricing right now and maybe some of the initial initiatives you're working on through some of the differentiation to the extent that it affects the least fleet? What's the rough ballpark you have in mind for next year for lease fleet growth?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. We've said moderate growth we're looking for at FMS over the cycle. So I think moderate growth I would define it as 4,000 to 6,000 units maybe. So, after a couple years of not having growth, we'll probably be on the high-end of that because we've got a lot of deals that we're inking this year that are being pushed off into next year because of the OEM delays.

But the important thing to note there is those are deals that are being signed at good returns with historically low residual assumptions, so not a lot – much less risk than in the past and a good solid return. So we feel good about them and we're focused on making sure that we bring those to the table and, again, continue to provide good long-term earnings growth and returns for the company for years to come.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

Okay. So it seems like the pricing initiatives or at least the high residual values – I'm sorry, low residual values, higher pricing that's being put into market, that's still being [ph] borne (0:56:06) given the level of demand and what's happening on the competitive front?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yes, yes. We are experiencing very good sales in lease this year through the balance of the year and we expect that to continue for the balance of the year. So, year-to-date, we've had good sales. We expect it to continue for the balance of the year. So, yes, the pricing changes that we've made, we're seeing them being accepted in the marketplace and we are signing up to those deals as the customers are willing to pay.

Brian P. Ossenbeck
Analyst, JPMorgan Securities LLC

Q

All right. Thank you for the time.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Thank you.

Operator: Next we'll hear from Jeff Kauffman of Vertical Research Partners.

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC
Q

Thank you very much. And John, congratulations on your new role. I got to tell you, I just am fuzzy with all this unpacking of changes here. So I just want to make sure I understand what's going on for modeling here. So, did you lower or I guess raise your depreciation number on a policy basis by the $18 million and that's why you only have the $85 million incremental benefit next year? Or are you talking about we made a small adjustment now but maybe there's an adjustment next year because our price realizations are well above what's being implied by our depreciation schedules? Can you help clarify kind of what's changed to the permanent depreciation what might be kind of a short-term adjustment? I'm trying to sort all this out.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Yeah. I'll hand it over to John in a second. But just to step back for a minute, we made an adjustment and we lowered the residuals on a certain group of tractors that really further de-risked those tractors from being – from us leading accelerated deprecation or losses in the case of a severe downturn. So, if used truck pricing were to go back to trough levels that we've seen in 22 years, those vehicles we would still have – we would still be at breakeven, wouldn't have any losses and we wouldn't need accelerated depreciation.

So you can view those as just further de-risking, if you will. What that amounted to was $18 million of additional depreciation expense this year, which is built into our forecast. And then as we go into next year, some of that continues to roll forward. So, what was $100 million of benefit next year is now only going to be $85 million. That's really the way those numbers are off.

Let me hand it over to John to [indiscernible] (0:58:51)

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC
Q

Yeah. And then conversely I guess what that implies is, let's say, used vehicle prices miraculously don't change from where they are now, we've got another year of larger gains on sale because we're depreciating these vehicles more aggressively. Is that another way to think about it?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

You will have in the future because it's the timing...

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC
Q

Yeah.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

...of when these vehicles are expected to come out. But in the future...

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC

Q

Right.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

...you will have more of those, yeah. Yes. That's another way to look at it.

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC

Q

Okay. John?

John J. Diez
Chief Financial Officer & Executive Vice President, Ryder System, Inc.

A

And Jeff, [ph] just a clarity, (0:59:19) I think generally you have it correct with your look at the $180 million that we discussed from the $220 million. That shortfall relative to the $220 million is in part the $18 million from the residual estimate changes that we disclosed. And then you had changes in the fleet that also drove some of the movement there. But generally speaking, the majority of it was what you highlighted in your remarks and your question. So, I think that gives you the color you were looking for.

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC

Q

Yeah. Just a philosophical question on how we think about this though. So, a lot of investors, right or wrong, treat gains as one-time things, right? So they don't want to give you credit for that in the earnings, whereas in your business gains are really just an adjustment of what we didn't depreciate correctly over the life of the vehicle. I shouldn't use the word correctly because the market jumps all over. But I guess why do that and not lower your depreciation structurally to raise the residual value, so that you're not reporting such large gains and it's showing up as pre-tax earnings?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. That's a great question. Look, I understand that some investors may look at gains as not being core to our business, but the way that – especially after we went through the last couple years, we know we don't ever want to be in a situation where we're selling our used trucks for less than our residual values for an extended period of time. That was not a good experience. I certainly don't want to relive it.

So our philosophy is really to have our residuals in a way where you're going to be getting gains, if not all the time, the vast majority of the time. And so, a portion – as you model out the business, you have to assume that there will be gains. There'll be some level of gains always in the P&L. That's what we're targeting. That's what we're trying to get to. So, that's the activity we're taking that we've just taken.

I don't want to talk about depreciation on these calls. I want it to no longer be a point of discussion. I want to just talk about the operations of the business and all the great things we're doing in the FMS business and our supply chain and dedicated businesses. And I think the only way to do that is to have those residuals at a level where the likelihood of having losses or accelerated depreciation is very, very low, and that's really what we're doing here.

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC
Q

And then the point is this all rolls up into pre-tax earnings anyway regardless of whether it goes up as depreciation or gains, correct?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Correct, correct.

Jeffrey Kauffman
Analyst, Vertical Research Partners LLC
Q

Okay. Great. That's my one extended question. Thank you.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Thank you, Jeff.

Operator: Bert Subin of Stifel.

Bert Subin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hey. Good afternoon and congrats on the quarter.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Thanks.

Bert Subin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Just wondering if you could – can you walk us through what you see is the bull and bear cases for supply chain? It seems like you're on a track to steady revenue growth, excluding some of these temporary auto headwinds. Just curious to know what factor do you expect to drive margin expansion and what you see as the top line runway for that segment maybe on a longer-term basis.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Yeah. The top line, Bert, we've really – obviously it's the – a core part of our strategy is really accelerating growth in supply chain and dedicated. These are good return, higher return businesses, less capital intensive. So we've been making significant investments in sales and marketing and technology. You heard us talk about RyderShare. You're going to hear us continue to talk about that because that tool and that product has become a key part of our sales in supply chain and dedicated, as our customers and prospects have seen what that tool can do relative to some of the competitors. We are winning a lot of business as a result of that.

So I'd expect the top line organically in supply chain and dedicated to really be pushing at that high-single-digit level, maybe flirting with double digit a few years and over time. But in addition to that, I would tell you, we're also looking to make investments from an acquisition standpoint that we're going to bring new capabilities and expand our capabilities in those areas. E-commerce is an example, some of the big and bulky stuff that we're doing, even adding new industries to supply chain. Areas where our dedicated business can become more competitive as we look at different ways of providing dedicated, we think there're some opportunities to bring in some strategic acquisitions there.

So, Steve, let me hand it over to you if you want to add any additional points.

J. Steven Sensing
President-Global Supply Chain Solutions, Ryder System, Inc.
A

Yeah, I think, Robert, just hitting again on the continued investments is critical for us, and I think it's shown how we can grow the top line. The Ever better campaign, as most of you may have seen it earlier in the year, we're going to be relaunching that here mid-August into September. And that's adding a great deal to our top line pipeline growth. So we expect that to continue to help dedicated and supply chain as well.

As Robert said, I think when we hit on all cylinders, you're looking at that flirting with the double-digit numbers. But as we try to remind you, our business is very cyclical and we're spread across a number of different verticals. So, team is continuing to focus on it and always trying to prove the bottom line.

Bert Subin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Just one clarification on that. You guys put a slide in the deck about last mile and certainly been sort of a core focus. Where does that fit into the whole paradigm here? Is that going to be sort of a margin accelerant going forward or is that just sort of taking advantage of where trends in e-commerce are right now? Thanks for the time.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.
A

Yeah. I think what we're doing there is, if you look at what we're doing there, we've made an investment in areas clearly as secular trend. It's taking advantage of the secular trend as more and more people are comfortable with buying things online and having things like furniture and appliances and fitness equipments delivered to their home. The capabilities that we have in dedicated, the capabilities that we have in transportation and equipment really allows us to play an important role in that market.

So we do see that as an opportunity to get into that space. Obviously, because of the secular trends, we see it as a growth accelerator. So, we'll grow at a higher clip than the average. And over time, we see margins there certainly being within the range of what we have for supply chain and dedicated, maybe over time even getting to the high end of that range. So, really overall a good business. I think the business that we purchased a few years ago through the acquisition of MXD which became Ryder Last Mile really is a very well-run business. We continue to enhance the capabilities there with some of the technology investments that we just discussed around RyderView and we have a great operating team there that runs that business very well.

Bert Subin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Operator: And our final question for today will come from Scott Group of Wolfe Research.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for the quick follow-up. So, I noticed the number of lease extensions picked up quite a bit in the quarter. Is this just delayed new trucks coming in? And what's the financial impact of longer leases I guess?

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

A

Yeah. I think that's primarily – there's a delay in trucks coming in. So, trucks that have life remaining – we've always had the philosophy if the truck has good life remaining, then we're going to extend that. You get a nice return on those vehicles. But I'll let Tom give you a little bit more color. Tom?

Tom Havens
President, Fleet Management Solutions, Ryder System, Inc.

A

Yeah, we actually saw two things. I think you've all heard about what's going on in the trailer market and how tight trailers are. But we saw an unusually high number of trailer extensions in our fleet this quarter more than we've ever seen. It was almost triple what we saw in Q2 of last year. And then secondarily would be OEM delays. We do have a number of short-term leases that are on our books and they typically expire in the second quarter. And we saw a large number of those vehicles get extended even more than we've seen in prior quarters. So it's really those two things that drove the numbers.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. Thank you, guys. Appreciate it.

Operator: At this time, there are no additional questions. I'd like to turn the call back over to Robert Sanchez for closing comments.

Robert E. Sanchez
Chairman & Chief Executive Officer, Ryder System, Inc.

Okay. No, thank you, everyone. We're past the top of the hour. So I appreciate everybody getting on the call and staying on a little longer. Thank you for the questions. I think there were some great questions and hopefully you got a good picture of what's going on here.

So, look forward to seeing all of you in the coming weeks as we get out to some conferences and road shows. Thank you.