Conference Title: Ryder System First Quarter 2024 Earnings Release Conference Call

Date: Tuesday, 23rd April 2024

Operator: Good morning and welcome to the Ryder System first quarter 2024 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 Ms. Calene Candela, Vice President Investor Relations for Ryder. Ms. Candela, you may begin.

Calene Candela: Thank you. Good morning and welcome to Ryder's first quarter 2024 earnings conference call. I'd like to remind you that during this presentation, you'll hear some forward-looking statements within the meeting 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 Fleet Management Solutions and Steve Sensing, President of Supply Chain Solutions and Dedicated Transportation Solutions are on the call today and available for questions following the presentation. At this time, I'll turn the call over to Robert.

Robert Sanchez: Good morning, everyone, and thanks for joining us. I'm extremely proud of our team for delivering solid results again this quarter despite freight conditions that remain challenging. Our operating performance continues to demonstrate that the transformative changes we've made to de-risk our business model, enhance returns and drive long-term profitable growth have significantly increased the earnings and return profile of the business versus prior cycles.

I'll begin today's call by providing you with key strategic updates as well as an update on the integration of Cardinal Logistics. John will then take you through our first quarter results, which exceeded our expectations, reflecting better than expected used vehicle sales results and benefits from our maintenance cost savings initiative. I'll then review our outlook and discuss how we have positioned the business to benefit from the cycle upturn.

Let's begin on slide four. Turning to slide four, executing on our balanced growth strategy continues to drive outperformance relative to prior cycles. Across all phases of the current freight cycle, our earnings and return profile have been higher than prior cycles, demonstrating the effectiveness of our strategy. The integration of our recent acquisitions of Cardinal Logistics and Impact Fulfillment Services or IFS is on track. As you may recall, we completed the acquisition of Cardinal Logistics on February 1st, enabling growth and further strengthening our position as a leading provider of customized dedicated transportation solutions.

I'll provide some additional information on this integration shortly. November 1st of last year, we completed the acquisition of IFS, which added co-packing and co-manufacturing capabilities in supply chain, primarily supporting our CPG business. We continue to see long-term growth opportunities in all three of our business segments supported by secular trends that favor outsourcing decisions, large addressable markets, and the value our solutions bring to our customers. Our initiatives remain focused on enhancing returns. Adjusted ROE of 17% for the trailing 12-month period is in line with our long-term target and reflects our expectations given where we are in the cycle.

The impact on ROE from weakening market conditions and used vehicle sales and rental has been partially offset by our initiatives. These initiatives include pricing and cost recovery actions, which benefited returns in all segments. FMS and SCS are expected to achieve their target EBT margins for the full year 2024, reflecting our initiatives as well as execution in our enhanced asset management playbook and FMS. We continue to expect DTS EBT margins to be just below the segments long-term target in 2024, reflecting acquisition integration and other related costs.

Our strong balance sheet and solid investment grade credit rating continue to provide us with capacity to pursue targeted acquisitions and investments as well as return capital to shareholders. During the quarter, we repurchased 120,000 shares under our discretionary repurchase program. We currently have authorization for a 2 million share discretionary program, as well as a 2 million share anti-dilutive program with approximately 3 million in total shares remaining under these programs.

Since 2021, we have repurchased approximately 16% of our shares outstanding. We also increased our dividend by 15% in mid-2023. Our full-year 2024 forecast for free cash flow is negative 175 to 275 million, higher than our prior forecast of negative 275 to 375 million primarily due to lower rental capital expenditures. We're encouraged by our solid performance in the first quarter and believe that executing on our balanced growth strategy will continue to enable us to deliver higher highs and higher lows over the cycle.

Slide five shows a comparison of key financial and operating metrics for 2018 and for our 2024 forecast. In 2018, prior to the implementation of our balanced growth strategy, we generated comparable EPS of 595 and return on equity of 13%. This was during peak freight cycle conditions. At that time, the majority of our 8.4 billion of revenue was from FMS. Supply chain revenue had a three-year growth rate of 16% and operating cash flow was 1.7 billion.

Now, let's look at what we're expecting from Ryder today. In 2024, a year that we expect will represent trough conditions in used vehicle sales and rental. We expect our transform business model to generate meaningfully higher earnings and returns than it did during the 2018 peak.

2024 comparable EPS is expected to be 1175 to 1250 compared to 595 in 2018. And ROE is expected to be 15.5% to 16.5%, well above the 13% generated in 2018. Through organic growth, strategic acquisitions and innovative technology, we have shifted our revenue mix towards SCS and DTS with 60% of 2024 revenue expected to come from these asset life businesses compared to 44% in 2018.

Supply chain three-year growth rate is also expected to increase to 20%. As a result of profitable growth in our contractual lease, supply chain and dedicated businesses, operating cash flow is expected to grow from 1.7 billion in 2018 to 2.4 billion this year. As shown here, the business is outperforming prior cycles, even when comparing prior peak to expected trough conditions. I'm encouraged by the result of our transformation thus far, and I am confident that the solid execution and momentum from multi-year initiatives position us well for 2024 and beyond.

Moving to slide six. On February 1st, Ryder completed the acquisition of Cardinal Logistics. This acquisition further advances our balanced growth strategy by accelerating profitable growth in our dedicated business. DTS continues to be an important part of Ryder's strategy to create shareholder value. Secular trends including the driver shortage and demand for business intelligence and freight visibility technology such as RyderShare continue to drive private fleets to pursue an outsourced dedicated transportation solution. Our dedicated business has demonstrated a resilient earnings profile over the cycle, as shown during the current freight downturn, as well as during prior cycles.

Finally, our dedicated business benefits from sales and operational synergies with FMS. Upselling FMS pipeline and lease customers to dedicated has been the largest driver of new sales activity for DTS for some time. DTS also benefits from access to equipment, asset management and maintenance services from FMS enabling DTS to deliver increased value to their customers and drive incremental cost savings. As we reach full integration in year three, we expect net synergies realized to be between $40 and $60 million. The expected synergies largely belong in three categories.

The first category is related to vehicle maintenance cost. Prior to the acquisition, Cardinal procured maintenance services from various third-party providers. Consolidating maintenance and asset management activities with Ryder is expected to generate significant cost savings and efficiencies going forward. The second category is cost savings related to vehicles financed under third-party operating leases. Approximately, two-thirds ~~one-third~~ [corrected by Ryder] of Cardinal's fleet is financed through operating leases with various banks and financing companies. As these leases mature, vehicles will be replaced with Ryder-owned vehicles, which will benefit from Ryder's lower vehicle acquisition cost and financing.

The majority of synergies are expected from these maintenance and equipment cost savings. In addition, we expect to benefit from operating efficiencies as we integrate the business into our existing operations and leverage management and overheads. We expect these synergies to begin in the second half of 2024 with benefits accelerating in 2025. Our integration of the Cardinal acquisition is on track. 2024 integration costs are estimated to be approximately 10 million and represent the majority of total expected integration costs. In 2024, we expect DTS EBT percent to be mid-single digits, reflecting integration and other related costs.

Our legacy DTS portfolio is expected to operate at the segments high single-digit target EBT percent in 2024. By 2025, realization of Cardinal synergies is expected to drive the DTS EBT percent back to the segment's high single-digit target. On an annualized basis, the transaction is expected to add approximately $1 billion of total revenue and approximately 800 million in operating revenue, which excludes fuel and subcontracted transportation. As a reminder, approximately 85% of operating revenue will be reflected in DTS, approximately 15% in supply chain and FMS will include inter-segment revenue from equipment leases and maintenance.

DTS fleet count at quarter end reflects the inclusion of 2,900 power vehicles and 6,900 trailers from the acquisition.

We continue to expect the transaction to be marginally accretive in 2024 and more meaningfully accretive in 2025 after achieving synergies and completing integration efforts. We're very excited about the opportunities ahead and believe that dedicated will continue to be an important driver of value creation for Ryder. The team is focused on a successful integration and realizing the synergies and benefits we are confident are achievable. I'll now turn the call over to John to review our first quarter performance.

John Diez: Thanks, Robert. Total company results for the first quarter on page seven. Operating revenue of two and a half billion in the first quarter, up 6% from the prior year primarily reflects recent acquisitions and contractual growth, partially offset by lower rental revenue. Comparable earnings per share from continuing operations were $2.14 in the first quarter, down from $2.81 in the prior year. The earnings decline reflects weaker market conditions in used vehicle sales and rental, partially offset by higher supply chain and choice lease results.

Return on equity. Our primary financial metric was 17% and in line with our high teens target over the cycle. The year-over-year decline reflects weakening used vehicle sales and rental market conditions. Free cash flow for the first quarter decreased to 13 million from 101 million in 2023, primarily due to lower proceeds from property and used vehicle sales.

Turning to fleet management results on page eight. Fleet management solutions' operating revenue decreased 1% due to lower rental demand, partially offset by higher choice lease revenue. Choice lease revenue grew 9% with about half coming from organic lease growth and the remainder from inter-segment lease revenue from Cardinal vehicles operating in our dedicated segment. Pre-tax earnings and fleet management were 100 million and down year-over-year as anticipated.

Results reflect lower use vehicle pricing compared to elevated levels in the prior year, as well as weaker rental demand. The impact from lower used vehicle pricing in the quarter was partially offset by higher use volumes. Rental utilization on the power fleet was 66% down from 75% in the prior year. Rental results for the quarter reflect market conditions that remain weak in addition to the sequential decline in rental activity we typically see in the first quarter.

Par fleet pricing declined 1%, reflecting on rental fleet mix with more trucks and fewer tractors. During the quarter, higher choice lease results and benefit from our [inaudible], partially offset the earnings impact from weaker market conditions in used vehicle sales and rental businesses. Fleet management EBT as a percent of operating revenue was 8% in the first quarter and is expected to be in line with the segments long-term target of low double digits for full year 2024.

Page nine highlights used vehicle sales results for the quarter. As anticipated, market conditions for used vehicle sales continued to weaken from elevated levels in the prior year. Compared with prior year, used tractor proceeds declined 34% and used truck proceeds declined 30%. On a sequential basis, proceeds for tractors decreased 4% and proceeds for trucks decreased 3% slightly better than our expectations. During the quarter, we sold 6,500 used vehicles down sequentially and up versus prior year.

Used vehicle inventory increased to 8,900 vehicles at quarter end and remains in line with our target inventory levels. Both sales volumes and inventory levels reflect higher lease replacement and rental depleting activity. Although used vehicle pricing declined, proceeds remain above residual value estimates used for depreciation purposes. Slide 21 in the appendix provides historical sales proceeds and current residual value estimates for used tractors and trucks for your information.

Turning to supply chain on page 10. Operating revenue increased 11%, primarily driven by the IFS and Cardinal acquisitions. Revenue growth in our automotive consumer packaged goods and industrial verticals more than offset softer volumes in our omnichannel retail verticals. Supply chain earnings increased by 47 million from prior year. Year-over-year comparisons benefited from a 30 million asset impairment charge in the prior year. Stronger automotive performance and recent acquisitions also benefited earnings in the quarter. Supply chain EBT as a percent of operating revenue was 6.6% in the quarter and is expected to be in line with the segments long-term target of high single digits for the full year 2024.

Moving to dedicated on page 11. Operating revenue increased 33%, reflecting the acquisition of Cardinal Logistics. Dedicated EBT declined from prior year, reflecting acquisition integration and other related costs as well as higher insurance costs in the quarter. EBT continued to benefit from favorable driver conditions as the number of open positions and time to fill for professional drivers improves. Dedicated EBT as a percent of operating revenue was 4. % in the quarter and below the segment's high single-digit target, primarily reflecting acquisition integration and related costs.

Turning to slide 12. First quarter lease capital spending of 582 million was slightly above prior year, reflecting planned lease replacement activity and the timing of OEM deliveries. For the first quarter, rental capital spending of 79 million was below prior year, reflecting lower planned rental investments in the quarter. For full-year 2024, we're forecasting lease spending of two and a half billion down from prior year. We have reduced our 2024 rental capital expenditure forecast by approximately a hundred million to align with our revised outlook for more modest rental upturn than initially expected. 2024 rental spending is now expected to be approximately 450 million.

Our 2024 average rental fleet is expected to be down 8%. In rental, we continue to increase capital spending on trucks versus tractors as trucks have benefited from relatively stable demand and pricing trends. At year-end, 2023 trucks represented approximately 60% of our rental fleet up from 49% in 2018. Our full-year 2024 capital expenditures forecast of approximately 3.2 billion is just below prior year. We expect approximately 600 million in proceeds from the sale of used vehicles in 2024, down approximately 200 million from prior year elevated pricing levels. Full-year 2024 net capital expenditures are expected to be approximately 2.7 billion.

Turning to slide 13, 2024 full-year forecast for operating cash flow is unchanged at 2.4 billion and our forecast range for free cash flow has increased to negative 175 to 275 million. As shown, operating cash flow remains strong, driven by growth in our contractual lease, dedicated and supply chain businesses, which comprise approximately 85% of Ryder's operating revenue. Our free cash flow profile has changed significantly since the implementation of our balance growth strategy in late 2019. Lower targeted lease growth, as well as COVID effects and OEM delays resulted in lower capital spending and higher free cash flow. Proceeds from the exit of the UK FMS business also benefited free cash flow in 2022.

The summary on the right side of the slide illustrates the free cash flow generated by the business prior to investing in fleet growth. In 2024, although free cash flow is expected to be negative 225 million at the midpoint of our range, free cash flow prior to investing in growth capital is expected to be positive approximately 400 million. Our capital allocation priorities remain unchanged and are focused on supporting our strategy to drive long-term profitable growth and return capital to shareholders. Our top priority is to continue to invest in organic growth. Strategic acquisitions have been a key contributor to accelerated growth in supply chain and dedicated.

Acquisitions have helped transform our supply chain business in terms of expanding capabilities to strengthen our core contractual businesses, as well as rebalancing our vertical mix. Balance sheet leverage of 246% at year-end 2023 was below our 250% to 300% target and continues to provide ample capacity to fund organic growth, strategic investments, as well as to return capital to shareholders through share repurchases and dividends. With that, I'll turn the call back over to Robert to discuss our 2024 outlook.

Robert Sanchez: Turning to page 14, we're raising the low end of our full-year 2024 comparable EPS forecast to 1175 to 1250 from our prior forecast of 1150 to 1250. This increase reflects first quarter outperformance from used vehicle sales and our maintenance cost initiative partially offset by weaker than expected market conditions in rental for the balance of the year. We've also increased our 2024 return on equity forecast to 15.5% to 16.5%, which is in line with our stated range of mid-teens during trough market conditions and low 20s during peak conditions. Rate market conditions remain challenging.

We continue to believe that 2024 will reflect trough market conditions in used vehicle sales and rental, and our forecast assumes a gradual pickup in the second half of 2024. Uncertain macro conditions are causing some customers and prospects in SCS to delay decisions, but we remain confident in the long-term secular growth trends in this segment. We continue to believe that the transformative changes that we've made to the business will continue to drive outperformance relative to prior cycles and that all segments are well-positioned to benefit from a cycle upturn. We're also providing a second quarter comparable EPS forecast of 275 to 295 versus the prior year of 361.

Turning to slide 15, in addition to managing through the down cycle, we are also focused on ensuring that the business is well-positioned to benefit from the cycle upturn. The majority of our revenue is supported by long-term contracts that generate relatively stable and predictable operating cash flows over the cycle and each business segment has opportunities to benefit from the cycle upturn. Most of our cyclical exposure resides in fleet management in rental and used vehicle sales. Improved freight conditions should increase demand for these businesses.

In rental, we intend to grow the fleet as we approach a cyclical upturn to capture the incremental revenue and margin opportunity. In used vehicle sales, we'll continue to leverage our expanded retail sales network in order to maximize proceeds with the potential to generate used vehicle gains above normalized levels. An additional opportunity on the horizon for FMS is the anticipated pre-buy activity ahead of the 2027 EPA engine technology changes.

The industry is generally expecting some level of pre-buy activity given the expected impact on upfront cost and maintenance cost implications. Based on what we see today, pre-buy activity could begin as soon as late 2025 as we have historically seen higher levels of fleet growth a couple years ahead of a change. We also would expect used vehicle pricing to be supported by demand for the old emission technology. Increased engine complexity and costs generally favor the outsourcing decision, which would benefit lease sales activity.

In dedicated, improved driver availability and lower recruiting and turnover costs are benefiting earnings but have been a headwind for new sales and revenue growth. As the freight cycle strengthens and driver availability becomes more challenging, we expect to see incremental sales opportunities and improved revenue growth in DTS as private fleets seek solutions to address this pain point.

In supply chain, weaker volumes in our omnichannel retail vertical have been headwinds to revenue and earnings. We continue to believe in the long-term growth prospects for our e-commerce fulfillment and last-mile delivery of big and bulky goods and have expanded our footprint to support this business. We expect supply chain results to benefit as volumes for these services recover and the incremental footprint is leveraged. We've been pleased by the overall business's outperformance during this down cycle and have appropriately positioned all three business segments to benefit from the cycle upturn.

Turning to page 16, Ryder is delivering value to our shareholders with more to come. Since implementing our balanced growth strategy, we have generated strong returns during each phase of the cycle and the resulting diversification of the business mix has demonstrated the resiliency of the transform model. We achieved higher highs during the 2022 upcycle and generated significantly higher returns during the 2023 down cycle relative to prior downturns.

In 2024, we continue to expect ROE to outperform prior cycles, despite expected trough conditions in used vehicle sales and rental. We continue to see significant opportunity for profitable growth supported by secular trends, our operational expertise and ongoing momentum from multi-year initiatives. We remain committed to investing in products, capabilities and technology that will deliver value to our customers and our shareholders.

Before we go to questions, I'd like to remind everyone that we're planning an Investor Day on June 13th in New York City, so please mark your calendars. We're planning a half-day event that will feature presentations from our business leaders and we'll conclude with a leadership luncheon and a solution showcase where in-person attendees can learn more about our expanded supply chain capabilities, innovative technologies such as RyderShare and the freight optimization platform under development by our baton team, as well as innovative technologies and services that are driving Ryder's profitable growth.

Advanced registration is required and is now open. More information can be found on our Investor Relations website. That concludes our prepared remarks. Please note that we expect to file our 10-Q later today. We had a lot of materials to cover today, so please limit yourself to one question. 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.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach your equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And we'll take our first question from Jordan Alliger with Goldman Sachs.

Jordan Alliger: Yeah, hi. Good morning. Just sort of question on used truck in the rental market. I'm just curious if you have any updated thoughts on the recovery. I know the expectation could be bottoming at some point as we move toward midpoint of the year. And then on the rental, the utilization was a little bit lower than I thought, and I know you've mentioned that it was coming in weaker from your perspective too, but have you seen, I mean, do you think it's stabilized at these utilizations now and we just sort of wait for the inflection?

Robert Sanchez: Yeah. Hey, Jordan. Well, I guess as far as the cycle for rental and used trucks, we're looking at this thing, it's the longest downturn we've had in a long time. We're, I think, over almost two years now, so we should be getting closer to the end of this certainly than the beginning. We look at spot rates and spot rates seem to be bumping along the bottom. You're seeing class A production come down, so the balance of freight and vehicles to move that freight should be beginning to get more in balance. That's usually where you start to see things start to improve. Another data point was really our used truck pricing sequentially from Q4 to Q1 declined 3% to 4%. So it was an improvement, if you will, in that decline level. The prior quarter, I think we're in double digits. So we are seeing some beginnings of maybe some stabilization there.

In rental, as you mentioned, we're not as confident yet. I think we're not – what we saw in the first quarter was certainly less demand than we expected. We did bring down our demand expectation for the balance of the year. We're expecting more of a more modest recovery in rental in the second half. I think a lot of that is driven by not only that. Obviously, demand hasn't come back the way we'd like, but there is an oversupply of rental trucks in the market right now that I think the industry's done a pretty good job over time to right size these fleets, but this one may take a little bit longer. So we're pushing out, if you will, that increase. So that's gone into the calculus for our balance of year forecast.

Jordan Alliger: Thank you.

Robert Sanchez: Thanks, Jordan.

Operator: And if you find that your question has been answered, you may remove yourself from the queue by pressing the star key followed by the digit two. We'll now take our next question from Scott Group with Wolfe Research.

Scott Group: Hey, thanks. Morning. So just want to follow up on the used side. So the used inventory is the highest now in a few years, so are you still – it's not clear, are you still assuming a recovery in used price in the back half? And if we don't end up getting that, maybe can you just talk about the cushion where you stand relative to residual assumptions right now?

Robert Sanchez: Yeah. As you said, we beat in the first quarter and we're not assuming that beat for the balance of the year. What the balance of the year has is really, I would call it kind of hitting the bottom here in the second and third quarter and then some uptick in the fourth quarter. It's hard to tell exactly when that's going to happen. That's why we kind of pointed out at the last call. I'd repeat that again in this call that if that pickup doesn't happen, then you would see us – between that and rental we would more likely be on the bottom end right around the bottom end of the range that we've given. So that's kind of the, as you asked about the cushion, that's sort of the way we're seeing it. Obviously, it depends on how the rest of the business does, but we feel really good about the contractual parts of the business. The forecast for that part of the business is really intact. The movement in the forecast has just been more related to the UVS and rental.

Scott Group: So actually, I just wanted to follow up there because if you look at the leasing fleet had some really good sequential growth at the end of Q1, and yet extensions are coming down and terminations are coming up. So any color there and how we should think about the leasing fleet from here?

Robert Sanchez: Yeah, we're I mean, organically because you got the Cardinal fleet in there too, which is going to increase that number, but if you think organically, we are seeing some early terminations. But if you look on that page, you're also seeing a lot of redeployment. So we do redeploy those vehicles into other customers. That's not unusual for where we are in the cycle to have a bit of a pickup there. I mean, remember, and the other thing I'd remind you is the last year we were at historically low levels of terminations. Remember, we still had a lot of tightness in the market.

So yeah, I would look at the organic fleet growth that we were expecting at the beginning of the year was on the high end of our two to 4,000. We're probably more on the low to mid-point of that growth rate. So think about two to 3, 000 now. So we are getting a little bit of pressure on the growth, but still, I would tell you, choice lease is a significant or a meaningful contributor to our year-over-year improvement because it's not only the growth that we're seeing but also the improvements from the lease pricing initiatives and the improvements in maintenance. Maintenance costs have been – were a beat in the first quarter and we're expecting some of that to continue into the balance of the year.

Scott Group: Thank you.

Robert Sanchez: Thanks, Scott.

Operator: We'll now take our next question from Brian Ossenbeck with JP Morgan.

Brian Ossenbeck: Yeah, thanks. Good morning. Robert, just to follow up on the maintenance cost, obviously a big line item, you've been focused on that a lot in the past. Is this more continuation of things that are structural improvements pre-Cardinal and integrating that and getting leverage off of that? Or is this more of kind of like a cyclical there's more capacity in the system, and so it's a little bit easier and costs are coming down, it's just deflation in general? How would you characterize that?

Robert Sanchez: Yeah, I think it's certainly the initiatives that we've been working on. For multiple years, we've talked about every year we have. We had the hundred million dollars initial multi-year initiative, and then since then, every year we've got, call it 20, 30 million of initiatives. So we're outperforming on some of those, plus we're getting some disinflation or less inflation, as you mentioned around some of those costs and that's also helping us. So I think those are structural, those are likely to continue certainly through the balance of the year.

Brian Ossenbeck: Okay,. That's helpful. And then just for the rest of the year, maybe you can talk a little bit through pricing and just how that's coming through right now. You mentioned over-capacity, but on the rental side, utilization was a bit lower. How do you see the market in terms of staying disciplined and rational, even though hasn't quite recovered from spot rate perspective on the leading indicator side? And then just same thing on leasing would be helpful if people are pushing those out or if you're finding still solutions for people who want to add or grow their lease book in this market. Thanks.

Robert Sanchez: Yeah, that was a good question. On rental, we're kind of flattish on rental pricing. There's certainly some pressure out there with all the excess equipment and we've been able to manage that pretty well in previous cycles and we're still holding out pretty well here. Around lease, certainly seeing a little bit more hesitation customers wanting to, whether they're not adding as much fleet, certainly as they were a year or two ago. So we're seeing a little bit of softness there, but as I mentioned, I expect still to have within our target growth of two to 4,000. And the pricing, the good thing about lease is that at the end of the day, you don't buy a truck until you have a signed lease. So we still are able to maintain our pricing discipline and staying within that target spread range that we've talked about of the 100, 150 basis points.

Brian Ossenbeck: All right. Thank you, Robert.

Robert Sanchez: All right, Thanks, Brian.

Operator: We'll now take our next question from Jeff Kaufman with Vertical Research Partners.

Jeff Kaufman: Thank you very much. Not to beat a dead horse, but I'm trying to figure out how to think about year-end fleet numbers in rental and lease. And I guess based on what I've heard, down about 8% in rental, so somewhere between 33, 34,000 units. And lease right now 147,000 units but that does include Cardinal. And if I take your 2,000 to 4,000, where does that kind of leave us at the end of the year on the lease fleet? And then just kind of attached to that, as we're de-emphasizing tractors and we're focusing a little bit more on trucks and on trailers, is that creating a negative mix shift in the reported RPU?

Robert Sanchez: Well, let me just on the lease side, yeah, I think you've got that right. We were originally about 13,000, including the 9,300, if you will, from Cardinal. So you added the 4,000 that got us to the 13,000, we should be light of that. We're probably going to be in that 11 to 12,000 range. It's a little early. A lot can happen for the balance of the year. So we could beat that, but right now, that's kind of what we're assuming for the balance of the year forecast. In terms of the pricing or – what was the second half of your question?

Jeff Kaufman: The second was, yeah, it looks like the lease RPU was actually pretty decent. I would've inspected a little bit more of a negative mix drag just based on how the components changing. So kind of help me see through that.

Robert Sanchez: Yeah, some of that is certainly the newer equipment coming in. Remember, the big shift to trucks though is in rental, not as much in lease. So where we've been making the shift to more straight trucks versus tractors has been on the rental fleet, less so on the lease fleet.

Jeff Kaufman: All right. And just to clarify your comment, so I should think of the lease fleet as being around this level for the remainder of the year in terms of total units.

Robert Sanchez: Well, it's going to move up from this level. So we've added the Cardinal units and then we're expecting it be up, call it two to 3,000 units from there. So we'll be about 150,000.

Jeff Kaufman: Okay, beautiful. Thank you.

Robert Sanchez: Okay?

Jeff Kaufman: Yep.

Robert Sanchez: Thanks, Jeff.

Operator: And we'll take our next question from Justin Long with Stephens.

Justin Long: Thanks. I wanted to ask about the recent trend in both the dedicated and supply chain backlogs. Just curious how the pipeline of activity has trended year-to-date relative to what you were seeing last year? Robert, you made the point about secular tailwinds, but you also have cyclical headwinds, so I'm just curious how that's netting out in terms of the pipeline for those businesses.

Robert Sanchez: Yeah, I'll let Steve give you some updates on the pipeline, just tell you. Yeah, in rental, I mean in dedicated, as we mentioned in our earlier forecast, we are expecting it to be flattish. We're seeing certainly some cyclical headwinds from just a lot – spot rates are pretty attractive. You're seeing customers trying to take advantage of those. Availability of drivers is pretty soft. So you're able to – companies aren't struggling as they were just a couple years ago to find drivers. But that is not unusual. It happens during the cycle. We feel confident that'll come back. Around supply chain, I think it's been more around the uncertainty in the economy. We're seeing customers delaying decisions. So I'll let – and again, I think that's also economically cyclical and you'll see some of that coming back. But Steve, why don't you give some color around. . .

Steve Sensing: Yeah, Justin, I'll start with supply chain. I think if you look at the pipeline year-over-year, we're relatively flat. As Robert said, just continued delays in decisions. Typically, it was about six months. Now, we're seeing that extend nine months plus. Lately, we have seen more delayed decisions, so either postponing or holding opportunities right now. So I really think it's an economic outlook for the year for these customers maybe making a network change later in the year. And then on dedicated, we did get a pop in the pipeline year-over-year. Some of that comes from the Cardinal acquisition. But the other balance is from our marketing campaign initiatives. Same kind of story there. Delayed decisions, people taking advantage of price over service right now on the dedicated side.

Justin Long: Okay. Got it. Thank you.

Steve Sensing: Thanks, Justin.

Operator: We'll now take a follow-up from Scott Group with Wolfe Research.

Scott Group: Hey, thanks for the follow-up. So you started to talk about the pre-buy coming maybe at some point next year. Where do you expect to benefit? Is it more leasing fleet growth? Is there any benefit to rental? Is it used pricing and gains? Where do you ultimately see the biggest benefit? It's been a long time since we've had a big pre-buy.

Robert Sanchez: Yeah, I think the answer is yes to all of those. If you go back to – starting to date myself, if you go back to 2006, so 20 years ago and the 2007 technology change was kind of similar to this one in that there was just a lot of cost increases with less operational benefits. We did see that level of pre-buy, a significant level of pre-buy in late 2005 and in 2006. And it impacted, first of all, lease because it allows – basically, you have a lot more at bats. You got companies making decisions on, I've got to replace my fleet. What do I do? Do I buy or I lease? Gives our lease sales opportunity to win some additional market. It helps our rental business because customers, as they are waiting for new vehicles, they're going to rent. And also the attractiveness of those vehicles that are pre-2007s that are in rental goes up certainly as an opportunity for rental to lease in the out years.

And then on the used vehicle side, certainly the – and that will stretch out for multiple years. The residual – not the residual, but the sales price of those pre-2027 vehicles when they come into the used truck market, should be helped significantly by the fact that they're pre-2027. If I go back to the vehicles that we sold that were 2006, we sold those vehicles significantly above our residual values at the time back in 2014 and 2015. So I would expect some of that to happen again through this cycle.

Scott Group: That's helpful, Robert. And maybe just your other bigger picture perspective here. There's this huge gap in fundamentals between what the trucking companies are saying and reporting and what the truck makers are saying and reporting. Maybe your thoughts on this disconnect and what do you think it means for new truck pricing going forward?

Robert Sanchez: Yeah, I think it boils down to – and again, we're not in the truckload business, but I think it boils down to the spot rates. We manage a pretty significant book of truckload business for our customers in our supply chain transportation management business and truckload rates have – spot rates have not recovered. They're bumping along the bottom, still very painful for especially the larger truckload carriers. I think that's just because we haven't had enough supply of probably the smaller owner-operators getting out yet. But this is a cyclical – part of the business is cyclical. It will come back up. It's usually, I don't know if it's darkest before the dawn, but I think we're getting there. It's just a matter of when that happens.

Now, in the meantime, the OEMs have come off of a pretty significant period of a large backlog. I think that the backlog has definitely come down. We're seeing lead times for vehicles all have come in from where they were. And I think the OEMs are kind of managing that production now through this part of the cycle and feel pretty good about it. So they are seeing – I'm sure they're all looking at the significant increase that they should see in late 2025 and 2026 for pre-buy. And I think are looking that as good for their industry and certainly for our business.

Scott Group: Makes sense. Thank you, Robert.

Robert Sanchez: Thanks, Scott.

Operator: We'll now take a follow-up from Brian Ossenbeck with JP Morgan.

Brian Ossenbeck: Yeah, thanks. Just wanted to get your comments on some of the end markets and the trends you're seeing particularly in SCS, but if you wanted to broaden out that would be helpful as well. And in the past, you've talked about omnichannel being a bit slow perhaps for the first quarter, first half, maybe a rebound in the second half. So auto is pretty strong. What about the rest of the verticals as you see them ramping up or not in terms of activity into the back half and into next year? Thanks.

Robert Sanchez: Yeah, again, I'll let Steve give you some color there, but certainly on the e-commerce, omnichannel there's two things going on is we're looking for an improvement in the demand. They're still pretty soft, but we're also trying to right-size the business where we can and adjust to the cost structure as best we can. So we're certainly looking for that to have some benefit in the second half. But the other parts of the business, if you looked at the results for the quarter, we're still growing pretty strong. But Steve, why don't you give him a little more about that?

Steve Sensing: Yeah, Brian. We're seeing continued volume in the automotive sector and industrial. So I think pretty decent outlooks there. CPG with the acquisition of IFS, certainly that's an area that we need to cross-sell and upsell to our core CPG customers. And I think as Robert said, in omnichannel, it's really a volume play if you think about the e-comm business and the last-mile business. So when the economy turns back around, we're ready to go sell that business.

Brian Ossenbeck: Okay. That's helpful. Thank you.

Robert Sanchez: Thank you, Brian.

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

Robert Sanchez: Okay. Thank you. Well, just as a final reminder, June 13th in New York is our Investor Day, so I certainly hope to see all of you there and look forward to giving you a more thorough review of all the good things going on at Ryder and what our outlook is not just for this year but going forward.

Operator: And once again, that does conclude today's conference. We thank you all for your participation. You may now disconnect.