

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

Date: Thursday, 24th October 2024

Operator: Please stand by. Good morning and welcome to the Ryder System Third 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 Third Quarter 2024 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 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. The Ryder team delivered another quarter of solid results despite an ongoing freight recession and market conditions in used vehicle sales and rental that remain weak. The key driver of our outperformance relative to prior cycles continues to be earnings growth in our contractual lease, dedicated, and supply chain businesses, which continues to demonstrate the effectiveness of our balanced growth strategy.

I'll begin today's call by providing you with key strategic updates. John will then take you through our third quarter results, which were in line with our forecast. I'll then review our outlook and discuss how we are well positioned to benefit from the cycle upturn.

Let's begin on slide four. Turning to slide four. Contractual earnings growth resulting from our business model transformation and execution on our balanced growth strategy continues to drive outperformance. Across all phases of the current freight cycle, our earnings and return profile has been higher than prior cycles. Secular trends that favor outsourcing large addressable markets and the value that our solutions bring to our customers, continue to support long-term growth opportunities in all three of our business segments.

Our initiatives are focused on further enhancing returns over the cycle. Adjusted ROE of 16% over the trailing 12-month period is in line with our expectations, given where we are in the freight cycle. Our contractual businesses continue to perform well, demonstrating the enhanced quality of our portfolio and increased resilience. The current phase of our balanced growth strategy is focused on creating compelling value through operational excellence, investing in customer-centric innovation, further improving full-cycle returns, and generating profitable growth.

We remain confident that continuing to execute our strategy while positioning ourselves for the cycle upturn will result in further enhanced full-cycle returns. The earnings power of our contractual portfolio is providing us with increased capital deployment capacity, which we expect to use to support profitable growth and return capital to shareholders. Our Board recently authorized a new

discretionary 2 million share repurchase program, which replaced the prior 2 million share program that we completed in September.

Year-to-date, we have returned \$382 million in cash to shareholders through our share repurchases and dividends. Our full-year 2024 forecast for free cash flow is unchanged at positive 150 to 250 million. We are encouraged by our solid performance in the third quarter and year-to-date and believe that executing on our balanced growth strategy will continue to deliver higher highs and higher lows over the cycle.

Slide five is one that you are likely familiar with if you've been following our business model transformation. It clearly shows how our key financial and operating metrics have improved since 2018, reflecting the execution of our strategy. In 2018, prior to the implementation of our balanced growth strategy, we generated comparable EPS of 5.95 and ROE 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 of 1.7 billion.

Now, let's look at what we're expecting from Ryder today. In 2024, a year that should represent trough conditions for used vehicle sales and rental, we expect our transformed business model to generate meaningfully higher earnings and returns than it did during the 2018 peak. Our 2024 comparable EPS is expected to be 11.90 to 12.10, double 2018 comparable EPS of 5.95. ROE is expected to be up 300 to 350 basis points, to a range of 16% to 16.5% above the 13% generated during the prior cycle peak, when market conditions were strong in rental and used vehicle sales.

Through organic growth, strategic acquisitions, and innovative technology we have shifted our revenue mix toward supply chain and dedicated. With approximately 60% of our 2024 revenue expected to come from these asset light businesses, compared to 44% in 2018. Supply chain three-year growth rate is also expected to increase to approximately 20%. As a result of profitable

growth in our contractual lease, supply chain, and dedicated businesses operating cash flow is expected to be 2.4 billion in 2024, 40% higher than it was in 2018.

As shown here, the business is outperforming prior cycles even when comparing prior peak to an expected trough. We are proud of the results of our transformation thus far, and we are confident that continued execution and momentum from multi-year initiatives positions us well for 2025 and beyond.

I'll now turn the call over to John to review our third quarter performance.

John Diez: Thanks, Robert. Total company results for the third quarter are on page six. Operating revenue of \$2.6 billion in the third quarter, up 9% from the prior year, reflects our recent acquisitions of Cardinal and IFS. Comparable earnings per share from continuing operations were \$3.44 in the third quarter, down from \$3.58 in the prior year. The earnings decline reflects weaker market conditions in used vehicle sales and rental, partially offset by higher contractual earnings.

In the quarter, we realized double-digit percentage growth from our contractual FMS, dedicated, and supply chain businesses. Return on equity, our primary financial metric was 16%. The year-over-year decline reflects weaker used vehicle sales and rental market conditions. Year-to-date, free cash flow increased to \$218 million from \$32 million in the prior year, primarily due to lower capital expenditures, partially offset by lower proceeds from the sale of used vehicles.

Turning to fleet management results on page seven. Fleet Management Solutions' operating revenue increased 1% due to higher ChoiceLease revenue, partially offset by lower rental demand. ChoiceLease revenue grew 7%, with about a third coming from organic lease revenue growth and the remainder from inter-segment lease revenue from Cardinal Vehicles operating in our dedicated segment. Pre-tax earnings in fleet management were 132 million and down year-over-year as anticipated.

Rental results continue to reflect weak market conditions. Although we saw some seasonal improvement in rental demand from the second quarter to the third quarter, the sequential increase was below typical patterns. Rental utilization on the Powerfleet was 71%, compared to 75% in the prior year. This level of utilization on a fleet size that is smaller than historical levels reflects ongoing weakness in the freight environment and conditions that continue to bounce along the bottom. Powerfleet pricing declined slightly by 1% due to a shift in more demand coming from our light duty trucks versus tractors.

Results also reflect lower used vehicle gains compared to elevated levels in the prior year, due to lower volumes and pricing. Higher ChoiceLease results and benefits from our maintenance cost savings initiatives partially offset the earnings impact from weaker market conditions in used vehicle sales and rent.

Fleet management EBT, as a percentage of operating revenue, was 10.3% in the third quarter, and is expected to remain at low double digits for full-year 2024, in line with our expectations given where we are in the freight cycle and below our recently increased long-term target of low teens.

Page eight highlights used vehicle sales results for the quarter. Compared with prior year, used tractor proceeds declined 22% and used truck proceeds declined 19%. On a sequential basis, proceeds from used tractors decreased 12%, partly due to sales of newer equipment in the prior quarter and, to a lesser extent, lower retail sales mix in the current quarter. Proceeds for trucks increased 4%. During the quarter, we sold 4,700 used vehicles down sequentially and versus prior year.

Our used vehicle inventory of 9,100 vehicles at quarter end declined sequentially and is expected to decline further in the fourth quarter as fewer rental units are expected to be out-serviced. Used vehicle inventory remained slightly above our target inventory range. Our used vehicle inventory

mix has shifted towards trucks, which are experiencing more favorable pricing trends than tractors. Trucks comprise 43% of current inventory, up from 26% in the prior year. Tractor inventory was 48%, down from 62% in the prior year. 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.

Turning to supply chain on page nine. Operating revenue increased 10%, driven by IFS and Cardinal acquisitions. Supply chain earnings increased 14%, or \$12 million from prior year, primarily reflecting stronger omnichannel retail performance and lower overhead spending. Supply chain EBT as a percent of operating revenue was 9.3% in the quarter and is expected to remain in line with the segment's long-term target of high single digits for the full year 2024.

Moving to dedicated on page ten. Operating revenue increased 49%, reflecting the acquisition of Cardinal Logistics. Dedicated EBT increased 31%, or \$8 million from prior year, reflecting improved operating performance and acquisition benefits. Our legacy dedicated business continues to perform well, demonstrating its resilience over the cycle and the integration of the Cardinal acquisition remains on track.

EBT continued to benefit from favorable conditions in the professional driver market, as the number of open positions and time to fill continue to improve. Dedicated EBT as a percent of operating revenue was 7.5% in the quarter and in line with the segment's long-term high single-digit target.

Turning to slide 11. Year-to-date lease capital spending of 1.5 billion was below prior year, reflecting lower lease sales activity. Year-to-date rental capital spending of 401 million was consistent with prior year and limited to replacement spending. Our full-year 2024 lease capital spending forecast remains unchanged at 2.2 billion, down from prior year due to lower lease sales

activity, reflecting delayed decisions and economic uncertainty, as well as increased redeployment activity.

Our year-end lease fleet is expected to increase moderately from third quarter levels. Our forecast for rental capital spending is unchanged from our prior forecast and our 2024 year-end rental fleet is expected to be down by approximately 2% year-over-year. In rental, we continue to shift capital spending towards trucks versus tractors, as trucks have benefited from relatively stable demand and pricing trends.

Our full-year 2024 capital expenditures forecast remains at approximately 2.9 billion and below prior year. We expect approximately \$600 million in proceeds from the sale of used vehicles for the full-year 2024. As a result, full-year 2024 net capital expenditures are expected to be approximately 2.3 billion.

Turning to page 12. In addition to increasing the earnings and return profile of the business, our transformed contractual portfolio is also generating significantly higher operating cash flow. Improving the overall cash generation profile of the business is one of the essential elements of our balanced growth strategy. Better earnings performance is driving higher cash flow generation and in turn, is de-levering our balance sheet at a more rapid pace. This momentum is creating incremental debt capacity, given our target leverage range of between two and a half and three times.

As shown on the slide, which is similar to the slide from Investor Day, between 2024 and 2026, we expect to generate approximately \$10 billion from operating cash flow in used vehicle sales proceeds. This creates approximately 3.5 billion of incremental debt capacity, resulting in total capital deployment capacity of 13.5 billion. For the same period, we estimate approximately 8.8 billion will be deployed for the replacement of lease and rental vehicles and approximately 400

million for dividends, leaving around 4.3 billion of capital available for flexible deployment to support growth and return capital to shareholders.

We estimate about half of this capacity will be used for growth CAPEX, and the remainder to be available for discretionary share repurchases and strategic acquisitions and investments. Our capital allocation priorities remain unchanged and are focused on supporting our strategy to drive long-term profitable growth and return capital to our shareholders. Our top priority is to invest in organic growth.

As we mentioned earlier, our Board recently approved a new \$2 billion discretionary share repurchase program. Since 2022, we have deployed approximately 900 million for discretionary share repurchases, reducing our share count by 19%. In addition, we've invested approximately 1.1 billion in strategic M&A. Our balance sheet remains strong with leverage of 249% at the end of the quarter, just below the line of our target range, and continues to provide ample capacity to fund our capital allocation priorities.

Turning to slide 13. Our 2024 full-year forecast for operating cash flow is unchanged at 2.4 billion and our forecast for free cash flow remains in the range of positive 150 to 250 million. As shown, operating cash flow remains strong, driven by growth in our contractual lease, dedicated, and supply chain businesses, which comprise approximately 90% of Ryder's operating revenue.

Our free cash flow profile has improved significantly since the implementation of our balanced growth strategy in late 2019. 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, since we do not expect organic fleet growth given market conditions, our free cash flow forecast of positive 200 million at the midpoint of our range is the same as our forecast for free cash flow prior to growth.

With that, I'll turn the call back over to Robert to discuss our 2024 outlook.

Robert Sanchez: Turning to our outlook on page 14. In the fourth quarter, we expect year-over-year earnings growth for the first time since the fourth quarter of 2022, as higher contractual earnings offset the impact from continued weak market conditions in used vehicle sales and rental. Our outlook does not assume freight conditions improve in 2024. The top end of our forecast range assumes a typical seasonal uptick in rental demand, whereas the lower end does not.

Our fourth quarter comparable EPS forecast is 3.32 to 3.52, up from the prior year of 2.95. Our full-year 2024 comparable EPS forecast is updated to a range of 11.90 to 12.10 from the prior forecast of 11.90 to 12.40. Our 2024 ROE forecast is unchanged at 16% to 16.5% and in line with our expectations given where we are in the freight cycle. The extended freight downturn and economic uncertainty have been causing some customers and prospects in lease, dedicated, and supply chain to delay decisions and downsize their fleets. These near-term contractual sales headwinds are consistent with the current economic environment.

We remain confident in the long-term secular growth trends in all our businesses. We believe the transformative changes that we've made will continue to drive outperformance relative to prior cycles and that all segments are well-positioned to benefit from the cycle upturn.

Turning to slide 15. In addition to managing through the downturn, we are also focused on ensuring that the business is well-positioned to benefit from the cycle upturn. As we outlined at our Investor Day in June, we expect an annual pre-tax earnings benefit of approximately 200 million by the next cycle peak. Although the majority of our revenue is supported by long-term contracts that generate relatively stable and predictable operating cash flows over the cycle, each business segment still has an opportunity to benefit from the cycle upturn. We expect a lion's share of the 200 million benefit to come from the cyclical recovery of used vehicle sales and rental in FMS.

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 freight capacity tightens and driver availability becomes more challenging, we expect to see incremental sales opportunities and improved revenue growth in dedicated as private fleets seek solutions to address this pain point.

In supply chain, weaker volumes and our omnichannel retail vertical have been a headwind to revenue and earnings. We expect supply chain results to benefit as volumes for these services recover and our warehouse footprint is leveraged. We've been pleased by the business's outperformance over this cycle and believe we have appropriately positioned all three segments to benefit from the cycle upturn.

Turning to page 16. In addition to the benefits, we expect from the cycle upturn, we also expect incremental benefits of approximately \$150 million in annual pre-tax earnings from profitable contractual growth and our multi-year strategic initiatives. The key drivers of achieving our long-term ROE target of low 20s over the cycle.

In FMS, we expect to realize the full annual benefit of \$125 million from our lease pricing initiative in 2025. This benefit is relative to our 2018 run rate, with an incremental impact of approximately 20 million estimated for 2025 as lease renewals are priced under the new model. We also expect to realize benefits from the \$50 million multi-year maintenance cost savings initiative announced earlier this year.

In dedicated, we expect to realize \$40 to \$60 million in annual synergies from the Cardinal acquisition at full implementation. The integration is on track with good line of sight to the majority of expected synergies, which are related to maintenance efficiencies and replacing third-party operating leases with the benefits of Ryder ownership and asset management.

In supply chain, we continue to optimize our omnichannel retail network to better align our warehouse footprint with the demand environment. During the third quarter, we began to see improved productivity in this vertical as a result of these actions and expect incremental benefits going forward. We are confident that ongoing execution of our strategy will continue to lift our returns profile.

Turning to page 17. Ryder is delivering value to our shareholders with more to come. Since implementing our balanced growth strategy, we have generated higher highs and higher lows over the cycle. This outperformance and increased resiliency reflects strategy execution and the transformative changes to the business model. 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 capabilities and customer-centric innovation that will deliver value to customers and keep us well-positioned to benefit from the cycle upturn.

That concludes our prepared remarks. Please note that we expect to file our 10-Q later today. 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.

Operator: Thank you. If you are dialed in via the telephone and would like to ask a question, please signal by pressing Star One on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press Star One to ask a question. If you are in the event via the web interface and would like to ask a question, simply type your question in the Ask a Question box and click send. We'll go first to Jordan Alliger with Goldman Sachs.

Jordan Alliger: Yeah. Hi. Morning. First question. I know you expect to hit the full run rate on the lease repricing in 2025, but I am curious, given the ongoing freight slowness out there, can you maybe

talk to your lease renewal experience broadly, both on new business you might be bringing in new customers versus renewals? And then you mentioned, I think this private fleet and I guess I don't know if it's the same question, but we've heard that private fleets have been increasing at the expense of for-hire fleets. I'm wondering if that works to the benefit of a leasing company like yourself or these retailers who might be expanding their own capacity, so to speak. Leasing versus owning. What do you think? Could that be some tailwind? Thank you.

Robert Sanchez: Thanks, Jordan. Yeah, I think first question around pricing and the pricing benefits. We do expect to complete the full benefit of the repricing of 125 million. We're probably looking at next year, probably the final 20 million of that initiative. As it relates to renewals and new customers. Yes. I'll let Tom give you a little bit more color, but we are seeing our base customers, which are primarily private fleets not growing their fleets as much as we had seen over the last several years. I think that is a reflection of maybe what you're hearing, where you're hearing the private fleets really grew their fleets.

Now that the vehicles have come in, there's less of a need to add more and maybe even some downsizing that we're seeing with existing customers as they right size their fleets. But long-term, as private fleets continue to grow, we should see some benefits. But I'll let Tom give you more color on what we're seeing currently with renewals. The majority of our leased customers, just to be clear, are private fleets as opposed to for-hire.

Tom Havens: Yeah, I think you hit it, Robert. What we're seeing, it's been a relatively slow sales year, as you might expect. When we get to the renewal stage of the leases, we have seen some customers downsize their fleet. So let's say they're renewing ten units. They might only renew nine. Something like that.

And then on the new business front, I would say from a pricing perspective, and I'll just reiterate some points that we've made in the past is that we have a compelling value prop when you compare

it to ownership still, particularly in this high inflation environment that most customers have experienced. We're well-positioned to deal with those inflationary pressures and have a compelling value prop versus ownership. So we have to sell that sometimes on a renewal. And we also sell that obviously when we're quoting new business as well.

Jordan Alliger: Got it. Thanks. And then just real quick follow-up. I know the expectation is rental, at least in the forecast is stay weak, but is there any signs or thoughts that, I mean, it feels like we should be at a bottom? I don't know if you agree with that. Any sort of color or commentary around that and is there any signs that there may be some recovery there at some point in 2025?

Robert Sanchez: Yeah, I think your comment about bottoming is kind of what we're seeing. What we saw in Q3 was a seasonal pickup. Certainly, not any type of larger pickup that would indicate the market is coming back. But a seasonal pickup is better than a decline, so we'll take it. But nothing yet in terms of a pickup in the freight market. The freight market is now, I guess we're nine quarters into this downturn. So we are certainly got to be closer to the end in the beginning and I think it's reasonable to expect there will be an upturn sometime in 2025. But we are not calling for that to happen in the fourth quarter other than just continuing to bottom.

Jordan Alliger: Thank you.

Operator: 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 go next to Christyne McGarvey with Morgan Stanley.

Christyne McGarvey: Great, thanks. Good morning, everyone. Just maybe as a follow-up on that conversation, can you talk a little bit? I know it's early days here for fourth quarter, but what in terms of seasonality you guys have been seeing so far, if any, and how that plays into delivering the potentially higher end of the 4Q guidance range?

Robert Sanchez: So seasonality and rental that we're seeing. Tom, you want to give them color so far in the month.

Tom Havens: Yeah. So like Robert mentioned, in Q3, we did see an uptick in demand but that uptick in demand was when you compare to previous years just seasonality. In fact, it was on the lower end of a seasonality uptick from Q2 to Q3. As we're sitting here a few weeks into the fourth quarter, we haven't seen anything other than seasonal uptick. There's been no signs of recovery yet here in the fourth quarter, and we're certainly not expecting that to happen here in the fourth quarter, other than the normal seasonal holiday increase that we would typically get from a demand perspective with Thanksgiving and Christmas. That's all we're expecting is that normal seasonality here in the fourth quarter.

Christyne McGarvey: Great. Thank you.

Robert Sanchez: Thank you, Christyne.

Operator: We'll go next to Jeff Kauffman with Vertical Research Partners.

Jeff Kauffman: Thank you very much. Well congratulations, everybody. I want to focus on the tail wagging the dog here. I just kind of have two questions. I understand what's going on with ChoiceLease and private fleets. That part I get. But SelectCare vehicles have been dropping at about a 5% rate for a couple of quarters now. And I always thought outsourced maintenance was kind of part of the pitch to a lot of these fleets. And while we're talking about SelectCare, rental fleet utilization still barely above 70% and that would imply we want to reduce the fleet. But your ratio of rental fleet to full-service lease vehicles is about 20% below normal right now. So do we not really take down the rental fleet despite the low utilization? Do we just kind of wash through that? So SelectCare and rental fleet. Those are my questions.

Robert Sanchez: So I'll let Tom give you the color on SelectCare. On the rental fleet though, I think that it's a good point. Historically, we've really brought the rental fleet down pretty significantly and then we've been slow to get it back. And I think in many ways have missed out on a lot of the rental upturn, even have had customers on an upturn that we haven't had vehicles for. So we are hanging on to these vehicles and allow utilization maybe a few percentage points lower than it would otherwise be.

And as we wait for this upturn to come, because we want to make sure we have the vehicles to make that happen, and it gives us an opportunity to really leverage and get more earnings as the upturn comes. So you're making a good point on the utilization level. But again, that's purposeful and really just preparing us for the upturn and giving us an opportunity to really leverage those units and get some additional earnings as we come up and take care of more customers. I'll let Tom give you some color on SelectCare.

Tom Havens: Yeah. Maybe just one other point on the rental fleet. We are down 7,000 units from the peak rental fleet from two years ago. So we have brought that fleet down quite a bit. But like Robert said, we do want to have fleet available for when that inflection point happens and the demand comes back. So we want to take advantage of that. Obviously, hopefully, that will happen in 2025.

On the SelectCare fleet, this question came up last quarter as well and I think we've seen this trend all year. The first point I'll make is that margins are actually up sequentially and up year-over-year. So I wanted to make that point. There's a subset of the SelectCare fleet that is very low revenue, very low margin and that's what we're seeing come out of the fleet. We've seen that for two quarters. And I will tell you that we're expecting that to happen again in Q4. So don't be surprised by that. But I would just tell you that the units that are coming out are very low impact, low revenue, low margin.

Jeff Kauffman: Okay. Thank you. That's my question.

Robert Sanchez: Thanks, Jeff.

Operator: We'll go next to Scott Group with Wolfe Research.

Scott Group: Hey, thanks. Good morning. So Robert, you're talking about earnings inflecting back positive in Q4. And I'm wondering if you could talk maybe about the puts and takes heading into 2025. I guess your guidance is mid-teens kind of earnings growth in Q4. I know it's early, but is that the right sort of framework to be thinking about for 2025? Or is there some thought that, hey, we're exiting with less contractual growth, and so maybe that becomes a little harder in 2025? I don't know. Help us think about the puts and takes.

Robert Sanchez: Yeah. I think, again, it's early. So we're sitting here in October with a looming presidential election. A lot of uncertainty and we're at the tail end of this long freight downturn. So we got those two things that we're kind of dealing with. But generally, I would tell you that you should expect earnings growth from our contractual businesses. As we end this year, we should continue to have earnings growth from our contractual businesses, first and foremost, from our initiatives. Lease pricing, we already talked about. Maintenance cost initiatives, the acquisition synergies for Cardinal that integration is on track.

So those are the three primary initiatives that will help earnings growth from the contractual business, along with some growth. First part of the year, organic growth in the contractual business may be a bit muted because of what we're seeing in sales right now, uncertainty around customers wanting to sign anything. And especially on the lease and dedicated side, just an oversupply of vehicles currently in the market versus the freight that's moving. But contractual earnings should be up next year, clearly.

From a transactional standpoint and based on where we are in the freight cycle today, I think it's reasonable to expect there will be a cycle upturn next year. The question is when. If it happens early in the year, I would expect the transactional businesses to create some meaningful tailwind in earnings. If it happens late in the year, probably still some tailwind but not as impactful, I would say year-over-year. Also depends on the magnitude of the freight cycle recovery because that can vary also.

So again, expect earnings growth from the contractual businesses again. The transactional business's earnings growth, most likely the magnitude of which is dependent on when the freight cycle returns. But again, this year we're looking at \$12 a share in what was likely a trough freight market. So it should again put it in perspective. I think you look at this quarter we're generally in line with what we had said prior quarter, which was in a soft or no recovery scenario we would be towards the bottom end of the range.

And when you adjust for tax, that's kind of where we came in. Full year, same thing. We're actually coming in the midpoint of what we said at the beginning of the year, even though there was no recovery. And that was in light of rental even being a little bit tougher. Used vehicles came in a little better. And then overhead, we managed overhead costs more to get us more into that midpoint of the range.

So we're really happy with where we are. Return on equity is at 16%, 16.5%, which is exactly where we should be. And based on our modeling and our forecast for this point in the freight cycle, and again, we expect that to all start to come up as the freight environment improves. And as we said on our Investor Day, get to that low 20s level over the cycle from an ROE perspective.

Scott Group: Okay. That's helpful. If I can just clarify one last thing. The slide with the tractor residual index, it's now within those two red bars. What should that mean for gains on sale going forward?

Robert Sanchez: So it would have to come down on that slide. It'd have to come down another 15% tractor prices to get to the bottom end, where you'd have no gains, if you will, on tractors. But again, what it means is that we still continue to have gains, certainly through the middle of the year of next year based on that lower end of that residual value.

Scott Group: Okay. Appreciate it. Thank you, guys.

Robert Sanchez: Thank you.

Operator: We'll go next to Brian Ossenbeck with JP Morgan.

Brian Ossenbeck: Hey, good morning. Thanks for taking the question. Maybe you can just give us a rundown of what you're seeing on the competitive landscape across lease, dedicated, and I know SCS is a broad range, but some thoughts there would be helpful considering it is a lower for longer environment. So wanted to see if you're seeing any competition on the [inaudible] that you wouldn't expect at this part of the cycle.

Robert Sanchez: I'll let each of the presidents talk about their business. I think generally remember it's contractual businesses that we're dealing with here. So this is the incremental new opportunities that we're talking about. But Tom, why don't you start with lease?

Tom Havens: Yeah. On the lease side, I would say from a competitor perspective, maybe the one thing that's a little bit different in a down environment is that you're competing more with re-deployable assets, if you will, as opposed to new. So you see more competition on those existing units, maybe a little bit of price pressure there. But when we are competing against new and we're deploying new capital, there's discipline around getting the returns on that new capital spend. Other than that, it's kind of what you might expect in a low environment like this. So it's tight competing on

deals. There's not as many deals on the table as you would normally see in a good environment. Other than that, it's kind of what you would expect.

Robert Sanchez: As a reminder, in lease, we typically don't buy a truck until we have a signed lease. So that discipline shared I think by most competitors really helps keep the pricing discipline on the leases and not having to move inventory that you're sitting on. Steve, you want to talk about dedicated and supply chain.

Steve Sensing: Yeah. Brian on supply chain, you're right. I think it's the same set of competitors. Rate is holding consistent. So I think it's really a solution-based opportunity there. So I think we feel pretty good about supply chain. In dedicated, our biggest competition right now is a spot market. So as that bounces back and the driver market tightens, as Robert and John said earlier, that's going to yield benefits for us as we go forward. And I think our continued collaboration with Tom's team on the private fleet conversion that continues to be the majority of our sales in dedicated. So I think we're positioned well.

Brian Ossenbeck: Okay. Thanks for that. One just quick follow-up. In terms of the hurricanes that disrupted the freight market and unfortunately caused a lot of damage. Are you seeing any impact on, I guess, current operations and maybe potential pickup as the recovery efforts start to gain some traction here and towards the end of the year? Would they have any impact on, I guess, current operations and then potentially in the fourth quarter for maybe some rental? Thanks.

Robert Sanchez: Yeah. Unfortunately, it's becoming a core competency at Ryder dealing with these hurricanes being headquartered down here in Florida. But our team once again did a great job of responding to these hurricanes. And clearly, our thoughts and prayers go out to all the folks that have been impacted. Our employees are all safe and accounted for, number one. Number two, all our operations are back up and running. So we're taking care of our customers and got those

operations going. In terms of impacts in Q4, I think, Tom, you want to give them a little bit on the rental side, if we're seeing anything regionally.

Tom Havens: Yeah. I would just add that as we prepare for hurricanes, we kind of set up our fuel deliveries and temporary power supply just outside of the cone. So we, like Robert said, we unfortunately got very good at this. So we were up and running within 48 hours with fuel drops, power. All of our locations have power. Luckily, we had relatively minimal damage at our locations. And I would say, we did see from a rental utilization perspective, a small uptick in utilization in the couple of business units in Florida, Georgia, and in the Carolinas. But I wouldn't say it had a meaningful impact on utilization when you look at it holistically, just kind of isolated in those couple of markets as we support the customers and the relief efforts of some to support those communities that were impacted by the storms.

Brian Ossenbeck: Okay. Thanks very much.

Robert Sanchez: Thanks, Brian.

Operator: We'll go next to Daniel Imbro with Stephens.

Daniel Imbro: Yeah. Hey, good morning, everybody. Maybe to follow-up on the tractor price backdrop discussion, you guys were having. So it sounds like you should still have gains, but maybe the gains are lower. And I think the release noted lower volume and pricing headwinds in the quarter. And so with used inventories declining, I guess when we look forward, would you expect the gains on those sales to continue to sequentially decline in the coming quarters?

And then relating that to cash flow, I don't think your free cash flow guidance changed and the proceeds from asset sales were maintained despite lower volume of sales and lower pricing on the

sales. Can you just help us bridge the gap on how free cash flow guidance stayed the same, given that backdrop on the asset sales? Thanks.

Robert Sanchez: Yeah, I think from a gain standpoint, you should see it kind of hover around where it's been. It's been in that, I think it was 15 million this quarter. It's 20 million a couple of quarters ago. Somewhere in that range, I think as we go into Q4, assuming pricing continues to sort of look for a bottom, which is kind of what we've been seeing, it's still down. You take out some of the anomalies, it's been down sequentially. Now, single-digit for the last three quarters. So looking for a bottom not quite there yet.

I think if you look at some of the forecasts from some of the groups that follow this, they're expecting some type of an uptick as we get into 2025, just by the measure of the amount of freight moving, the number of trucks on the road. So hopefully, that's coming in early, and we get that early. But as you go into this quarter, I think it's more of what we've seen the last couple of quarters. And in terms of free cash flow.

John Diez: Yeah, Daniel. This is John. Just the free cash flow, as you heard from Robert, the movements sequentially, actually, truck pricing was a little bit better with tractors coming in a little bit lower sequentially. The volumes were a little bit softer. That was probably more the impact, I would say this quarter, on the cash flow, but within the margin of our 100 million range that we had given back in Q2. As a result, we didn't think we needed to adjust for that because we do see market conditions bouncing along the bottom at this point in time.

Daniel Imbro: Great. I appreciate all that color. Thanks, guys.

Robert Sanchez: Thanks, Daniel.

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 all for your interest and questions and we'll see you on the road soon.

Operator: This does conclude today's conference. We thank you for your participation.