

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

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Operator: Please stand by. Good morning, and welcome to the Ryder System Second 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 Second 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. 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 that 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. John will then take you through the second quarter results, which exceeded our forecast due to better than expected results in ChoiceLease. 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, our transformed business model and execution of our balanced growth strategy is continuing to drive outperformance relative to prior cycles. Across all phases of the current freight cycle, our earnings and return profile has been higher than prior cycles, demonstrating the effectiveness of our strategy. The integration of our recent acquisition 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. On November 1st of last year, we completed the acquisition of IFS, which added co-packaging and co-manufacturing capabilities to supply chain, primarily supporting our CPG business.

We continue to see long-term growth opportunities in all three business segments, supported by secular trends that favor outsourcing decisions, large addressable markets, and the value of our solutions. Our initiatives remain focused on enhancing returns. Adjusted ROE of 16% for the trailing 12-month period is in line with our expectations, given where we are in the freight cycle.

At our Investor Day last month, we introduced the next phase of our balanced growth strategy, which is focused on creating compelling value through operational excellence, investing in customer-centric innovation, further improving full cycle returns, and generating profitable growth. We are confident that continuing to execute our strategy while positioning ourselves for the cycle upturn will result in full cycle returns that will be further enhanced. We also expect our enhanced asset management playbook to continue to optimize returns in FMS over the cycle.

Our higher return profile, reflecting the enhanced quality of our contractual portfolio, is providing us with expanded capital deployment capacity, which we will use to support profitable growth and return capital to shareholders. We recently increased our quarterly dividend by 14% and announced a planned acquisition to grow our retail mobile maintenance business in FMS. Year-to-date, we have returned \$207 million in cash to shareholders through share repurchases and dividends.

Our full year 2024 forecast for free cash flow is now increasing by approximately 400 million to positive 150 to 250 million, due to lower expected lease capital spending. We're encouraged by our solid performance in the second 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 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 earnings per share 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 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 transformed de-risked business model to generate meaningfully higher earnings and returns than we did during the 2018 peak. 2024 comparable EPS is expected to be 11.90 to 12.40, more than 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.

Through organic growth, strategic acquisitions, and innovative technology, we've shifted our revenue mix towards supply chain and dedicated with approximately 60% of 2024 revenues 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 increase 40% 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 an expected trough.

I'm encouraged by the results of our transformation thus far, and confident that solid execution and momentum from multi-year initiatives positions us well for 2024 and beyond. I'll now turn the call over to John to review our second quarter performance.

John Diez: Thanks, Robert. Total company results for the second quarter on page six. Operating revenue of \$2.6 billion in the second quarter, up 10% from the prior year, primarily reflects recent acquisitions. Comparable earnings per share from continuing operations were \$3.00 in the second quarter, down from \$3.61 in the prior year. The earnings decline reflects weaker market conditions in used vehicle sales and rental, partially offset by higher contractual earnings. 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 71 million from 16 million in the prior year, primarily due to lower capital expenditures, partially offset by higher working capital needs related to recent acquisitions and lower proceeds from the sale of used vehicles and properties.

Turning to fleet management results on page seven. Fleet Management Solutions' operating revenue increased 2% due to higher ChoiceLease revenue, partially offset by lower rental demand. ChoiceLease revenue grew 10%, with about half 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 133 million and down year-over-year as anticipated. Results reflect lower used vehicle pricing compared to elevated levels in the prior year, as well as weaker rental demand. Rental utilization on the power fleet was 69% and down from 75% in the prior year. Rental results for the quarter continue to reflect market conditions that remain weak. We saw some seasonal improvement in rental demand from Q1 to Q2, but the increase was below what we typically see and not enough to signal a freight recovery. Our fleet pricing was in line with prior year.

During the quarter, higher ChoiceLease results and benefits from our maintenance cost savings initiative partially offset the earnings impact from weaker market conditions in used vehicle sales and rental. Fleet management EBT as a percent of operating revenue was 10.4% in the second quarter and is expected to be low double digits for full year 2024, in line with our expectations given where we are in the freight cycle but below our recently increased long-term target of low teens.

Page eight 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 19% and used truck proceeds declined 27%. On a sequential basis, proceeds for tractors increased 5% and proceeds for trucks decreased 10%. Tractor pricing remained relatively stable, whereas truck pricing continued to decline.

During the quarter, we sold 6,000 used vehicles down sequentially and up versus prior year. Used vehicle inventory increased to 9,500 vehicles at quarter end, reflecting higher lease expirations. Inventory was just above our targeted inventory range and is expected to decline as fewer rental units are expected to be out-serviced during the balance of the year. Although used vehicle pricing declined, proceeds remain above residual value estimates used for depreciation purposes.

Slide 19 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 nine. Operating revenue increased 14%, driven by recent acquisitions and organic growth across all industry verticals. Supply chain earnings increased by 9 million from prior year, primarily reflecting stronger automotive performance. Supply chain EBT as a percent of operating revenue was 8.6% in the quarter and is expected to remain in line with the segment's long-term target of high single digits for full year 2024.

Turning to dedicated on page ten. Operating revenue increased 48%, reflecting the acquisition of Cardinal Logistics. Dedicated EBT increased from prior year, reflecting improved operating performance, partially offset by acquisition, integration, and other related costs. EBT continued to benefit from favorable driver conditions, as the number of open positions and time to fill for professional drivers continued to improve. Dedicated EBT as a percent of operating revenue was 7.6% 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 933 million was below prior year, reflecting lower lease sales activity. Year-to-date rental capital spending of 294 million was also below prior year, reflecting lower planned rental investments. We reduced our full year 2024 lease capital spending forecast by approximately 400 million due to lower lease sales activity, reflecting delayed decisions and economic uncertainty, as well as increased redeployment activity.

2024 lease spending is now expected to be approximately 2.2 billion and our year-end lease fleet is expected to increase moderately from second 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 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 is now expected to be approximately 2.9 billion and below prior year. We expect approximately \$600 million in proceeds from the sale of used vehicles in 2024, with full year net capital expenditures expected to be approximately 2.3 billion.

Turning to slide 12. Our 2024 full year forecast for operating cash flow is unchanged at 2.4 billion, and our forecast for free cash flow has increased to a range of positive 150 to 250 million. As shown, operating cash flow remained strong, driven by growth in our contractual lease, dedicated, and supply chain businesses, which comprise over 85% of Ryder's operating revenue.

Our free cash flow profile has changed significantly since the implementation of our balanced 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, since we do not expect fleet growth given market conditions, our increased 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. 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 continue to invest in organic growth.

Balance sheet leverage of 245% at the end of the quarter was below our 250% to 300% target range and continues to provide ample capacity to fund organic growth and 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 our outlook on page 13. We continue to see freight conditions that remain weak and the timing of the cycle inflection remains uncertain. We're updating our full year 2024 comparable EPS forecast to a range of 11.90 to 12.40, from our prior forecast of 11.75 to 12.50. The high end of our forecast range continues to assume a gradual recovery in rental and used vehicle sales, although later in the year and the bottom end reflects ongoing weak conditions for these businesses. Our 2024 ROE forecast is 16% to 16.5%. The extended freight downturn and economic uncertainty have been causing some customers and prospects in lease, dedicated, and supply chain to delay decisions or downsize their fleets.

These near-term contractual sales headwinds are consistent with where we are in the cycle and the current economic environment. We remain confident in the long-term secular growth trends for all our businesses. 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 the cycle upturn. We're also providing a third quarter comparable EPS forecast of 3.30 to 3.50 versus the prior year of 3.58.

Turning to slide 14. 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. As we outlined at our recent Investor Day, we expect an annual pre-tax earnings benefit of approximately 200 million by the next cycle peak. This is in addition to the 150 million in pre-tax earnings we expect from the contractual growth and strategic initiatives such as lease pricing, maintenance cost savings initiatives, realization of the Cardinal synergies, and optimization of our multi-client network.

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 the opportunity to benefit from the cycle upturn. Most of our cyclical exposure resides within fleet management, in rental and used vehicle sales, and as a result, we expect the lion's share of the 200 million benefit to come from the cyclical recovery of these two businesses.

In dedicated, improved driver availability and lower recruiting and turnover costs are benefiting earnings but have been headwinds 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 dedicated as private fleets seek solutions to address this pain point.

In supply chain, weaker volumes in 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 the incremental footprint is leveraged. We also expect improved freight conditions and reduced economic uncertainty will benefit contractual sales activity for lease, dedicated, and supply chain.

We've been pleased by the business outperformance during this down cycle and have appropriately positioned all three segments to benefit from the cycle upturn. An additional opportunity on the horizon for FMS is the anticipated pre-buy activity ahead of the 2027 EPA engine technology changes. We would expect this to benefit ChoiceLease sales activity and longer-term support used vehicle pricing due to demand for the old emissions technology.

Turning to slide 15. 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 transformed model. We achieved higher highs during the 2022 upcycle, even after adjusting for outsized used vehicle gains, 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.

That concludes our prepared remarks. 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.

Operator: Thank you. If you 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.

We'll pause for just a moment to allow everyone an opportunity to signal for questions. And our first question will come from Christyne McGarvey with Morgan Stanley.

Christyne McGarvey: Great. Thanks, guys, for taking my question. Good morning. We'd love to just start on the guidance and digging in a little bit more, particularly at the high end. It seems like a cycle recovery sort of pushed out to the right a little bit, But we'd just love to hear what you guys are seeing and sort of what's kind of underpinning that. Does seem like some of the early cycle data points that we track are seeing a little bit of life. So would just be curious your thoughts on that.

Robert Sanchez: Thanks, Christyne. Listen, well, let me just reiterate the range that we gave and kind of thinking around that range. The higher end of the range continues to assume a gradual recovery in rental and used vehicles in the second half. And in the lower end of the forecast, contemplates that there will be no pickup in the second half of 2024. So just kind of ongoing weak conditions. In terms of what we're seeing, we have not seen an inflection, certainly in rental and used vehicles. I would say maybe we're seeing some signs of stabilization and maybe a real troughing. And I'll mention three that we see in our business in the second quarter, then I'll then hand it over to Tom because they're really in FMS.

First, we saw a seasonal uptick in rental in the second quarter. We're seeing that as we go into the third. Another one is that the lease miles per unit, probably something we haven't talked about in a while, which is typically an indication of how much our lease units are being utilized. We saw that go up in the second quarter for the first time in a while. And then also around tractor pricing, used tractor pricing. I know we reported it up sequentially about 5%, had some unusual new units that we sold in the mix this quarter. So when you take those out, it's kind of flattish. So that's really kind of a bottoming out of used tractor pricing, which I think is also a sign. So let me hand it over to Tom to give you a little bit more color around each of those three.

Tom Havens: Yeah. So let me start with rental. Just a little more color there. But we saw six straight quarters of sequential demand declines before this second quarter period here. So you do normally see seasonality in the business and rental. But last year, as we went through the year, demand declined the entire year. So this was the first quarter going from Q1 to Q2 that we actually saw a sequential increase in demand. We would typically expect to see that just from seasonality. So it was good to finally see that trend go up. I don't think it signals a recovery in any way, but just sort of a normal seasonal improvement in demand.

From a lease perspective, the story maybe even a little bit more dramatic, where we had seen 11 straight quarters of year-over-year declines in miles per unit. So a little over two years, the last time we saw miles per unit increase year-over-year in a quarter. So we did see some declines in the lease fleet, mainly due to customers downsizing their fleet. So maybe this is an indication that there's some rightsizing and rebalancing of those fleets when you see the miles finally improve year-over-year.

And then finally in used vehicle sales, like Robert said, we saw an increase in tractor pricing sequentially. But we did have some unusual sales for us of newer equipment, which drove that pricing up. When you take that out, the kind of underlying normal pricing trend would have been down about 2% in tractor pricing. So kind of flattening out of tractor pricing, if you will, sequentially. So those are the three things that we saw in the quarter that may indicate kind of a bottoming out and maybe a slight sign of recovery.

Christyne McGarvey: Appreciate the color there. Thank you.

Robert Sanchez: Thanks, Christyne.

Operator: Thank you. 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. And the next question will come from Jeff Kauffman with Vertical Research.

Jeff Kauffman: Thank you very much. It's interesting you're talking about the positive changes you're seeing in customer behaviors in the environment. But when I look at capital spending, it's being taken down pretty aggressively across more and more companies and I feel like this isn't just publicly traded for higher truckload here. But we're starting to see the private slow down a little bit. I'm just curious, do you view this more as a delayed reaction where the industry P&Ls have just been under pressure and people are kind of now coming to grips with that in terms of their equipment orders? Because we've seen the OEMs and ACT Research and people like that take their forecasts down pretty aggressively for the second half of this year.

Robert Sanchez: Yeah. Thanks, Jeff. Look, I think what we're seeing is we're coming off of a really hot period in terms of orders for new trucks. They were delayed for as much as over a year. So a lot of it was a bit of a frenzy of people getting into order vehicles and then waiting for them to come in. Now they've come in. So I think most companies are probably re-evaluating how many they need right now. And there's not this hurry about having to order today because I won't get it for a year.

I know I can pick up, get a tractor here in the next 90 to 120 days. So the lead times have come in a lot and that need to order in order to get in line has kind of slowed down for me. That's not unusual, I would say, for where we are in the cycle. So this stuff can turn pretty quickly. But yes, and I want to make sure we're clear. We're aren't seeing a huge pickup in sales on our contractual businesses. We are seeing some headwinds from customers in leagues that are downsizing their fleets, even in dedicated and then also delayed decisions.

The uncertainty around the election and when interest rates are going to come down, I think are a great excuse or reason for customers to say, well, why should I do it this month if I can wait till next month or two months until I see how this transpires, especially since the economy and the freight market has not really picked up strong yet.

What we're seeing, though, I think what we're trying to outline here is that we believe that the depleting, if you will, especially with our lease customers that's been going on for a while is now maybe getting to a point of more equilibrium where the units that they do have, they are running them more, which is a good sign. Rental, there's a need for rental trucks again, at least during the season.

You got to pick a need for more rental trucks. And then the pricing, the tractor pricing. We give you a pretty good graph there in the appendix on where we are historically. And you can see that after a pretty significant decline from those crazy peaks back in 2021 and 2022, we are seeing it kind of get to a bottom what appears to be a bottom over the last couple of quarters.

Jeff Kauffman: Okay. And I don't want to detract from the terrific results we saw in supply chain and dedicated. I'm just kind of curious because the theme across most calls this quarter has been we're reducing our capital spend. We're going to take fewer trucks. We're going to take fewer trailers. I did notice that the SelectCare vehicle numbers were down. What's driving that?

Robert Sanchez: John, you got that?

John Diez: Yeah. So what we continue to see, we've got a number of SelectCare customers that have elected to convert over to full service lease, and that has been a trend we've seen over the last two years. So as you continue to see the SelectCare numbers, I would expect that to reduce over the balance of the year. And then once we get to next year, you should see that start picking up.

Jeff Kauffman: So it's down for a good reason. Yeah.

Tom Havens: No, I would also say we saw similar to the lease fleet where our SelectCare customers were downsizing their fleet as well. We had two very large trailer fleets actually, that were really low impact to us. So kind of large in fleet but low in impact to the P&L. If you look at the P&L, the revenues were actually up year-over-year despite the fleet headwinds and the returns were a little bit better. So kind of a rebalancing of that fleet maybe a little bit smaller, but better returns.

Jeff Kauffman: Okay. And then last follow-up question on this. One of the trends we've seen over the last two years is that a lot more activity on the private fleet side than the public for-hire fleet. Are you sensing any change in terms of private fleet customer thinking on the need to expand the fleet?

Robert Sanchez: I think the private fleet expansion was probably most likely driven by the shortage that we had of truckload capacity during the 2022 spike. So we saw it in our lease customers. Really, that's when our lease customers were all scrambling for vehicles. I think those vehicles have come in and they're now getting to could be a stabilization point in terms of they're now getting to the right number of vehicles that they needed in the fleet. There's still some downsizing going on. But again, that increase in lease miles per unit is, I guess, a first indication that maybe we're getting closer.

Jeff Kauffman: All right. Well, congratulations on a terrific quarter, and thank you.

Robert Sanchez: Thank you, Jeff.

Operator: And we'll take a question from Jordan Alliger with Goldman Sachs.

Jordan Alliger: Yeah. Hi. A question on dedicated. At least what I was thinking, especially with the acquisition and what have you, the margins seem to be tracking right in that high single-digit range, longer-term target, maybe a little bit ahead of sort of what I was thinking or where we were thinking. So curious if you could maybe talk to some of the drivers behind the performance and then specifically, do you think you could sort of stay maybe closer to this type of level quicker than expected? Thanks.

Robert Sanchez: Yeah. Thanks, Jordan. We are very pleased with the results that we saw this quarter in dedicated. Some of it is a bit of a seasonal pickup that we tend to get, but really, the earnings growth was primarily driven by the base business just performing better. And I think it speaks to the power of these long-term contracts that we have in dedicated. I would say supply chain and lease where you look at even in this difficult of an environment, you're actually getting earnings growth from these businesses, which is probably a bit unique given our industry and some of the volatility that we see there.

So those businesses are really what are holding up the earnings of the company. They're helping to counter some of the volatility that we see in rental and used vehicles, which was basically the goal of our balanced growth strategy. So dedicated is one, you saw supply chain also with good earnings growth, and then even in lease, we're seeing the outperformance in the quarter was driven by outperformance in our lease business.

So again, we're really pleased with the performance that we see there. And probably a little too early to say how we're going to end full year in dedicated but we feel pretty good. Actually, we feel pretty good about the waterfall that we gave at the beginning of the year. The contractual businesses we expect to come in in aggregate, coming in pretty close to what we had on that waterfall.

Jordan Alliger: Thank you. I appreciate it.

Operator: Thank you. And our next question will come from Brian Ossenbeck with JP Morgan.

Brian Ossenbeck: Hey. Good morning. Thanks for taking the question. So I just wanted to see, given there's some signs of stability but a little bit of uncertainty out there and some pulling back from the customers. What are you seeing in terms of competition and pricing trends across the different segments? And I guess, particularly interested in maybe some of the shorter cycle stuff where there has been a bit of extra capacity over the market, but also on dedicated, because it does seem like this lower for longer environment has caused maybe some behavioral changes to push for that last cut or two on pricing. So some comments on competition and price would be helpful. Thanks.

Robert Sanchez: I'll touch on the contractual businesses a little bit. On the leasing side, it's primarily in terms of what we see from competition, most of us don't buy a truck until we have a signed lease. So there's not this need to just push equipment into the market. There is some redeployment of rental equipment, maybe that sometimes brings a little bit more aggressive pricing. But generally, I think some pretty decent pricing discipline there. Around the dedicated business, clearly the more dedicated capacity, vanilla freight type of freight. We are seeing some pressure as customers look to take advantage of lower spot rates and truckload rates. However, on the customized type dedicated, which is primarily what we do, less of a challenge.

So that's why you saw we're getting some customers that are taking freight that they brought over during 2022. That was more vanilla freight maybe moving back. But generally, the core of our dedicated business is still strong. And again, in that market, I think from a competitor standpoint, I think the competition, again, relatively rational, especially when it requires more specialized type handling.

In supply chain, I would say it's really just getting customers to make decisions, I think. I'm not sure the pricing has moved a lot on the traditional supply chain business. Now, some of the multi-client e-commerce, even multi-client supply chain type activity where some of our competition may have empty warehouses, you might see some aggressive pricing in some areas. But generally, on the contractual traditional business, again, pretty decent pricing discipline.

Brian Ossenbeck: Okay. Thanks for that, Robert. So just to understand the guidance here and sort of the expected recovery that's embedded in there. The top end, the bottom end of the range isn't quite wide, especially considering how much that can move with things like rental and UVS. But maybe you can walk through sort of what, I mean, it seems to imply that that's a pretty small recovery in the back half of the year that you're expecting. If that's the range, it's that small. But I just wanted to understand that a little better. Thanks.

Robert Sanchez: Yeah. I guess for the high end of the range, I would tell you we would expect rental utilization to get back into that mid to high 70s range, which is what we would call more normalized. And then gains kind of a little bit up from where we are today. I think we were just under 20 million this quarter. We're probably looking to be a little bit above 20 million going into the second half and more of that in the fourth quarter. So yeah, modest uptick for the balance of the year, primarily fourth quarter. And then on the bottom end, it's really more of a modest seasonal pickup in rental in the second half. And then UVS, really not doing much, maybe flattish to down from where we are today.

So yeah, it's not a huge difference between the top and the bottom. And obviously, everything in between is you can have a little bit more of this, a little bit more of that. So we think it's a very reasonable range in terms of what's achievable here and it will be a matter of how much the market cooperates over the next couple of quarters.

Brian Ossenbeck: Okay. Thanks. That's helpful. Appreciate it.

Operator: And we'll take a question from Scott Group with Wolfe Research.

Scott Group: Hey, thanks. Good morning. So I just want to follow up on that last point. So when I just look at the third quarter guide, it's up a good amount from Q2 in terms of earnings, probably a little bit better than normal seasonal. So it doesn't sound like that's reflective of used and rental getting much better in the third quarter. So is that right and is it more just like the core earnings just getting better or am I mishearing and there is some assumption in the Q3 guide specifically that has rental and used getting better?

Robert Sanchez: No, it's what you said. It's core earnings getting better from Q2 to Q3. And then more of the seasonal uptick would be fourth quarter, I would say. I'm sorry, not seasonal uptick, the transactional uptick. So more of an inflection, modest inflection in Q4. But when you go from Q2 to Q3, it's primarily going to be the contractual business continuing to deliver.

Scott Group: Okay. That makes sense. And then just given where I think you showed the used inventories above the long-term target, and then I think the tractor price is now at the residual value range. Like is it realistic that used is going to get better with inventory where it is and do we need to do anything with residual assumptions?

Robert Sanchez: Yeah. I'll let John give you a little color on that.

John Diez: Yeah, Scott. So we're sitting with inventory levels just above our target range of 7,000 to 9,000 sitting at 9,500. We have reduced the rental fleet, which drove up that inventory level. For the balance of the year, we're not expecting any further significant reductions of our rental fleet. So you should expect our inventory levels actually to start coming down through the end of the year. Nothing dramatic there, but certainly, will not continue picking up. So that's one indicator.

The other indicator is we've seen relative stability in the tractor classes for the last two quarters with single-digit declines. I would say even the Q2 adjusted for that one transaction Tom alluded to. So we're seeing stability there and then we are expecting some sort of recovery based on the capacity demand imbalance that we've enjoyed over the last several quarters. We think we're getting to the bottom of that and we may hit an inflection point in Q4.

So all indicators for us is that as we exit the year and going into 2025, we should see used vehicle market conditions get better. And we did provide for you all our typical slide. We are sitting above our residual value estimates and even on the tractor side there's room there that we can handle any sort of modest reduction.

Scott Group: Okay. And then if I could just ask one more. I know you talked about pre-buy at the Analyst Day a month ago, but I guess we've had the Chevron ruling since then. I don't know. Does that, in any way, change your views on how you think about timing magnitude of a pre-buy in 2025?

Robert Sanchez: Yeah. I think, Scott, first of all, I want to make sure we're clear that we're not an OEM. So the pre-buy doesn't have as big of an earnings impact on us in the short term as it would for an OEM. We're going to – during a pre-buy, gives us an opportunity to win more business because you got more customers making decisions, maybe pulls forward some customers that were going to renew a year out. So there's certainly an opportunity to win more business. But the earnings for that lease will come in over the next six years. So it's not a big driver one way or the other. You'll have some additional capital probably is the way that'll work.

Where it does provide a more significant opportunity is if things behave the way they did in other technology chains, it does provide a lift for used equipment for the years after the technology change. So the equipment that we're buying today and the equipment we bought over the last few years should be more valuable as those vehicles hit the used truck market because that older

technology does become more desirable from a business and economic standpoint. So that's really how I would say you should think about the pre-buy for Ryder. I mean, as it relates to Ryder.

I think the other thing I would mention is when can it happen. Clearly, it should happen in 2026. Will it start early? I mean, I think back in 2006 and 2007, which is probably the one that's more like this one, it started in the kind of second half of 2005. And it follows the same pattern you would expect to see maybe like starting in the second half of 2025.

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

Robert Sanchez: Hey. Scott, I should probably clarify one other thing. On the high end of our range, just to be clear, I told you it's the contractual businesses that are helping us from Q2 to Q3. But I also want to mention we did say we were also assuming that on the high end that our utilization for rental will get back to more normalized levels. So we are looking for an uplift in Q3 for utilization. And to put that in perspective, I think, Tom, give a little color of where we are today versus –

Tom Havens: Yeah. So we finished Q2 69%. You see that number where we're sitting here today at around 73%. So it's up four percentage points. And that's the seasonal uptick that you would expect to get. So obviously, that 4% improvement is going to bring with it a little bit more return as well.

Robert Sanchez: So we're early in the quarter. We're at 73%. We would expect that to come up some if things behaving that way and it should come up more. And we're having some type of an improvement to come up in August and September. So that's still TBD. But hopefully, that gives you a little color on where we're at.

Scott Group: But that feels a little better than seasonal, that four point improvement.

Robert Sanchez: No, not really. That tends to be kind of what we see seasonally. If it gets up above that 73 and we start to see the next few months, it continues to go up, then you're talking about something more than seasonal.

Scott Group: Thanks for the time. Appreciate it.

Robert Sanchez: Thanks, Scott.

Operator: And moving on to Daniel Imbro with Stephens.

Daniel Imbro: Yeah, thanks. I want to start on the dedicated market. You guys noted in the slides I think a lot of the DTS growth is from Cardinal. If we excluded Cardinal, I guess, how's the rest of the business growing, either on a revenue and an EBIT basis? And then related, obviously, the integration's progressing. You have the financial capacity, but do you have enough human capital or operational bandwidth to integrate another large deal on that side of the business today? Just curious your appetite to add scale.

Robert Sanchez: So first if you look at dedicated excluding Cardinal, it's kind of flattish on the growth side. Earnings are growing because of operational improvements, but flattish on the top line, primarily as customers are downsizing their fleet, and in some cases, holding off decisions and where it was on the margin, moving it to truckload. So that's the first piece.

The second piece around, do we have bandwidth to do another acquisition. I mean, we do. We could. However, we're really focused. This is a pretty significant acquisition for that business. So we're really focusing on making sure we get this one right and that we get it on track in terms of all the activities we have to do. We've got synergies to deliver for next year that we've already

outlined is 40 to 60 million and we feel good about where we're at. So integration is going well and we found another perfect acquisition and we certainly have bandwidth to do it. But we're going to be very selective during the period while we're integrating this one.

Daniel Imbro: Great. That's helpful. If I could squeeze a follow-up question on the guide. Used vehicle sales obviously weighed on 2Q and I think truck prices have kept moderating at least a bit. There was some OEM chatter around potentially a new truck price pressure coming in the back half. So I'm just curious, are you guys embedding that used vehicle sales remain pressured in the guide? Is that incorporated into the outlook today?

Robert Sanchez: Yeah, it is. Well, as I mentioned, the high end of our range has some uplift as we get into the second half, probably more into the fourth quarter. The low end is not. The low end has continued softness in the used truck market.

Daniel Imbro: Great. Appreciate all the color. Best of luck.

Robert Sanchez: Thanks, Daniel.

Operator: And the next question comes from Christyne McGarvey with Morgan Stanley.

Christyne McGarvey: Hey, thanks for the second question. Maybe just on the supply chain business, just want to dig in a little bit more. You alluded to it at the top of the call, but what you guys are seeing in sort of the e-commerce omnichannel verticals and what customers are currently telling you about their kind of volume outlook as we look to the back half of the year and peak season.

Robert Sanchez: Sure. Well, as you know, we've had some softness in that business over the last year and a half. I'll let Steve give a little more color on what we're seeing in that e-commerce business.

Steve Sensing: Yeah. Thanks, Christyne. Yeah, I would say right now we're kind of flat year-over-year.

If you think about the omnichannel business specific and getting into e-commerce and last mile, still kind of flattish. I'd say our customers right now are projecting a slight uptick more seasonal as you go into the peak period, but I would say nothing significant at this point.

Christyne McGarvey: Thanks. Appreciate the color.

Operator: Thank you. 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. Thanks for being on the call and look forward to seeing you guys when we get on the road. Have a good day.

Operator: Thank you. And that does conclude today's conference. We do thank you for your participation and have an excellent day.