

Ryder System

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Christyne McGarvey: Wonderful. We're going to keep things going here with Ryder. Very excited to have them on stage. My name is Christyne McGarvey for anyone I haven't spoken with yet, and I'm joined with Mr. John Diez who is CFO.

Before we begin, I do have to say, for important disclosures, please see Morgan Stanley Research Disclosures which can be reached at our website, morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative. With that, John, it is wonderful to have you here.

John Diez: It is great to be here.

Christyne McGarvey: In California. Several years running now, but I think maybe one of your first times on stage with us?

John Diez: First time here for me, yep.

Christyne McGarvey: Great. Well, I think maybe to kick things off, Ryder does a lot of different things under one roof, and I think we all see the trucks on the road. I think that's why people typically think of when they think of Ryder, but that actually is sort of scratching the surface. Maybe the best place to start off is, just give an introduction to what you guys do, where do you sit in the freight marketplace, what is Ryder?

John Diez: Yeah. We support a great number of customers and shippers across North America. As you heard from Christyne, we do have a truck leasing and rental business, that's our Fleet Management business. We also have a Dedicated Transportation which is the outsourcing of the truck, the driver, and we also provide the engineered solution to execute those transportation moves on behalf of our customer.

And then we have a Port to Door Logistics supply chain business which continues to grow. We do anything from warehousing, ecommerce fulfillment, last mile delivery and transportation within that space.

The business overall is really focused on the outsourced transportation and logistics sector, so that do-it-yourself market, that's really what we're looking to tap into, it's a growing market and one that we believe has significant secular trends.

Christyne McGarvey: Great. Wonderful. I think the other thing we would probably be remiss to not discuss right off the bat is quite the transformation that Ryder has had over the last several years. I think we've been unfortunately sort of bouncing along the bottom of a freight cycle for some time. You guys are certainly not immune. But I think of, when I think of our coverage, our broader coverage, maybe one of a few companies, maybe the only one, that can say their current run rate of earnings is above the prior peak cycle. Maybe just walk us through what you guys have done to drive those results. I think at times, the market has struggled with underwriting that, so maybe with a particular lens to why investors should believe this is sustainable and they can underwrite this as the current trough.

John Diez: Yeah. No, great. And I love telling the story because me and many others on the team have been a part of it. If you look at our business today, relative to 2018 which was the last peak cycle for us, we're almost double in earnings. Back in 2018, we were a \$5.95 stock from an EPS perspective. We're looking at posting anywhere around \$12 a share this year, so \$11.90 to \$12.40 is our current guidance.

We've done it in 2 ways. One was we felt we needed to de-risk our Fleet Management business and the leases. A lot of the lease returns come from the backend disposal of our trucks, so residual values. One of the key elements that we did was raise prices to absorb the lower residual values that we price to our customers. That was a key ingredient to the transformation.

We also looked at productivity gains within our Fleet Management business, which today spends more than \$1 billion in maintenance activities to support 250,000 commercial vehicles, and we've been able to reduce the maintenance spend by \$100 million a year as well.

If you look at those 2 components, those were a meaningful part of elevating the margin profile of our Fleet Management business from high single-digit quality of earnings to low double-digits quality of earnings. At the same time, we also did look to accelerate the growth in our asset lite business, so Supply Chain and Dedicated. Those businesses have grown tremendously, and they've been a big part of the growth. But more importantly, they've grown profitably. The profitability of those businesses has almost doubled by more than \$200 million over that same span.

We've now got 3 I would say market leading scaled businesses that are performing with 85% of the revenues coming from contractual relationships that go anywhere from 3 to 7 years across the board. By growing the Supply Chain Dedicated side of the house, we've been able to really diversify the portfolio and de-risk the business overall.

Christyne McGarvey: Yeah, there's a lot there that I want to dig into as we move forward. But maybe before doing so, with a lot of that transformation is a lot of change, a lot for investors to digest. It seems like a lot of these wholesale changes are maybe not behind us when we think about the next 2, 3, 5 years. What are you guys looking to deliver at Ryder? What should we hold you guys accountable to in terms of your deliverables going forward?

John Diez: We've come out with our new strategy, which is really focused on, number one, operational excellence and creating a mindset of continuous improvement for our customers. Through innovation and really delivering customer centric technology, we think that will power the future of transportation logistics and it's going to help us grow the business.

And then the third component, which I think gets to your question, Christyne, is we're looking to take the business, which prior to the transformation was a mid-teens return on

equity business, we've elevated that now to a high-teens return on equity business. And now we're looking to take the business to a low 20s return on equity business. As we continue to grow the business, we've got initiatives that will help us get to that low 20s.

Christyne McGarvey: Awesome. I want to pivot back to strategy in a moment, but I think just given where we are and how we've kind of been bouncing along this bottom of the cycle for quite some time now and everyone is sort of on cycle watch, how do we think about your cyclicality? How much torque does Ryder have to the cycle? How do you work to capture that upside versus obviously de-risking the model as well? Maybe just a little bit about should we, knock on wood, get a cycle inflection here, how Ryder is going to perform.

John Diez: For us, as I mentioned, 85% of our revenue base is contractual in nature. The one key point for us is that 15% transactional part, which is the commercial rental and used vehicle space, which obviously is disproportionately impacted by cycle dynamics. We do feel like all 3 parts of the business are going to benefit from some sort of snapback or an inflection point here favorably. Clearly for us, even though all 3 businesses will benefit from it, rental, commercial rental is the first one that sees the benefits of that. That and used vehicle sales, which as we're navigating through the bottom of the market, we do expect used vehicle pricing to continue to improve going into next year. As that occurs, you're going to see the earnings power of the business come back. We've given that a value of about \$200 million that we should see recovery from the cycle uptick.

Christyne McGarvey: Great. I want to talk maybe about Fleet Management for a moment, that business. Because you actually recently raised your long-term margin targets, again, at the bottom of the cycle. Probably no easy feat. Maybe just talk about the drivers of that. How much is in your control? What does that look like kind of upcycle/downcycle? And how do you expect to deliver that?

John Diez: We feel pretty good about elevating the margin profile of that business because as Christyne mentioned, a good portion of that is within our control. Building on the performance we've seen in our maintenance initiatives, which have delivered already \$100 million of annual benefits, we think there is another \$50 million to be had when we look at the processes we have around some of our labor that we deploy towards delivering the service there in that business. That's going to take a few years, but we think that's going to be one of the catalysts.

The other catalyst for us is continuing the effort on our lease pricing initiatives. We laid out that lease pricing over the cycle should deliver \$125 million of annualized benefit. We're about 90% complete so we probably still have another \$20 million to \$30 million or so benefits to be had as we continue to replace leases. As they come off, we'll replace them with higher performing leases over the next couple of years. That should continue and that will propel us.

Obviously behind that, we also have a recovery that we expect from the freight cycle that should improve rental and UVS market conditions. But we feel really good based on the performance we've had with the lease pricing initiatives to date and the performance we have with our maintenance initiatives that we should be able to deliver on those 2 components going forward.

Christyne McGarvey: Great. Maybe just as a follow-up on that, the pricing in particular, obviously somewhat through that process now. Maybe just talk a little bit about when we start to lap those, what does that outyear growth look like on pricing? And in terms of it's still a fairly competitive market, leasing, so how do you think about balancing obviously wanting the returns that you want versus share in the market as well?

John Diez: We feel we are market leader and we've seen that even through this transformation, our customers have continued to be with us even through the difficult time here. And they have absorbed that pricing uplift. We see good opportunities for growth. If you look at the do-it-yourself market, and those that own and finance their own commercial vehicles, there's still great opportunities, over 70% that has not outsourced yet. We think we bring compelling value to those customers.

From a growth perspective, we think we can deliver consistent growth over time in that, as we've said, mid-single digit level, while at the same time commanding a good value/price through our leased service offering. I would say that's more longer term.

In the near term for us, Christyne, it's more about we do have the ability we feel with this technology change in 2027, that demand for new equipment and the older technology which would be delivered in '25 and '26 ahead of the change in '27, that demand is going to be accelerated and we should be able to participate in that short term dynamic in a bigger way.

Christyne McGarvey: Maybe just as a follow-up on that, are you seeing any changes in customer behavior given some of the political backdrop changes whether it's Chevron or the election? Any sort of pauses from customers around their plans around replacement or growth?

John Diez: No, I think relative to 2027 and the NOx reductions laws that are going to impact off-fleet operators, no change there. I would say longer term, certainly, there's a lot of regulatory uncertainty. We don't think the Chevron doctrine and what's happened with the Supreme Court ruling is going to impact the 2027 mandate. That I think the OEMs have been prepared for. Our customers continue to come forward and ask about how do they plan around that. We are seeing a great number of customers start the dialogue. We've seen transactions already that we've been a part of that we've been able to participate. We expect that to escalate as we get into 2025 and then into 2026 without a doubt.

Christyne McGarvey: Got it, that's helpful. Maybe switching gears a little bit here, over to the asset lighter segment, would just love to hear a little bit more about the pipeline within your Dedicated and your Supply Chain solutions. How has that evolved over the last 12 months? Are you seeing signs of customer behavior shift a little bit as we've extended here and the availability of capacity maybe becomes a concern again as we hopefully again approach any sort of cycle inflection? But would just love to hear what that pipeline looks like.

John Diez: Yeah. If you look at our Supply Chain business and Dedicated, those businesses are set to grow double-digits in Supply Chain and high single-digits in Dedicated. We've been able to deliver that here over the last cycle. More recent, as you're intimating in your question, we have seen a slowdown in the growth. We have seen the pipeline move up. And really, it is a reflection of customers delaying decisions. The uncertainty and the macroeconomics clearly with a pending election, interest rate environment that's still a little bit in flux. And then you're seeing now the impact of the consumer. On the demand side of the equation, I think you are seeing more and more customers delay decisions.

Our pipeline is up for both of these businesses and that's just a reflection of delaying decisions. We do expect Q4, as we get through the election, then customers are going to start getting clarity and they'll start making decisions going into 2026.

Christyne McGarvey: Yeah, that's great. And as we approach that, maybe just tell us a little bit about the pipeline conversion timeline. When it converts, when it implements, what are startup costs like? Do you expect a margin drag? How does that conversion from pipeline to

revenue look like for you guys?

John Diez: For both of those businesses, they're usually big projects for our customers and the lead times from decision to launch is about 6 months. The lead time is fairly extended. Our FMS business, it's about 90 days for that business to get up and running, so this a half a year of lead time.

With regards to our startup and how we deal with startup, we typically price that into the deal and we'll amortize that over the contract, which typically for Supply Chain is 3 to 5 years and the same for Dedicated. No real drag I would say from a startup perspective there, but clearly we're looking at if things pick up in Q4, you'll start seeing that progression to the topline start showing up in the second half of 2025.

Christyne McGarvey: Second half '25, great. Maybe staying on Dedicated, but again, I want to get a little bit more tactical now. Collectively, as an industry, seems like there has been, just given where we are, a little bit of pressure from churn, from fleet downsizing. Maybe just talk a little bit about what you guys are seeing on that front and how -- again, the flipside was, the opportunity for a fleet downsizing has quickly scaled back up. Does that provide a little bit more torque than normal in an upcycle? Just love to hear your thoughts on that.

John Diez: We've clearly seen the shrinking of customer fleets. We see that both on the lease side, which we support about 14,000 customers across U.S. and Canada. And then on the Dedicated side, just the same. If you look at Dedicated for example, we have seen not only decisions stall, but we've seen customers downsize their fleet.

As their business turns around and they start seeing or feeling more confident around demand, we will see a pretty quick rebound there. We're well positioned in that we have access to equipment that we could support that rebound with our customers. We do plan, as the rebound occurs, we will be having to invest more capital, both on the lease side and the commercial rental side, to not only support our lease and rental customers, but also the Dedicated business.

Christyne McGarvey: Got it, very helpful. Maybe staying near term but switching over to Supply Chain solutions, omnichannel volumes have been a bit of a headwind. Would just love to hear what customers are telling you about in terms of their own plans. And then, as you look out, how do you get confidence that this is really, truly cyclical, there's not something happening with shifts to other modes or what have you and will return to prior growth rates when macro picks up?

John Diez: No, great. Our omnichannel business, to frame it up, represents just over 30% of our supply chain business. Within that, we have I would say 2 distinct services offerings. One is ecommerce fulfillment, so we provide port to door solutions there, bringing product from Aisa or other parts of the world. We dray into our warehouse footprint and then we'll fulfill orders that come in from customers, fulfill that direct to a customer, to a store, or to a retailer, just the same.

That part of the business I would tell you continues to grow. Not at the same growth level that we had seen in the previous 2 years. We do see momentum there, although slower growth. I will tell you on our last mile, which is last mile big and bulky, that's a business where we deliver direct to consumers, primarily furniture, health equipment and white goods. That business, with what we saw with the raising of interest rates and construction and building coming down, we have seen the impact there. That business has been slowing and the rate of growth there has been negative for the last couple of years. But we do think that business will rebound. As interest rates here come down going into next

year, we should see some sort of leveling off and pickup in that business going forward.

I would say both of them obviously are feeling the impact of the consumer, both on the housing side for last mile and on the consumer side for retail on the omnichannel fulfillment side. But those businesses have tremendous secular trends. The secular trend for us is, more and more consumers are looking to buy online and get that product delivered straight to their home or place where they'd like it delivered. That should continue and we see the growth trajectory of that business moving in the right direction going forward.

Christyne McGarvey: I'm certainly doing my part on the online shopping. Maybe just one last tactical one and then I have some fun stuff I want to address too. But probably would be remiss not to ask about used truck pricing outlook. I know there's been a little bit of concern around Class 8 inventories. Here at the bottom of the cycle, feels somewhat normal, but what is your outlook? And then maybe walk through, for folks who are newer to the story, kind of the wiggle room you guys have around residual assumptions, etc.?

John Diez: Yes. I would love to. From a used vehicle perspective, being one of the largest buyers of commercial vehicles in the U.S., as those vehicles kind of cycle through, we produce a lot of used vehicles and we're one of the largest retailers. We've been in now what seems to be the longest downturn in our recent history. We're at 24, 25 months. That typical cycle is 12 to 18 months. We've seen used vehicle pricing come down to near trough levels on the Class 8 heavy duty tractor side.

I would tell you on the truck side, which is still about 40% of our fleet today, that pricing has come down, but it's still at elevated levels, even near record pre-COVID pricing levels. We expect trucks to continue to decline just based on where they're at today. Tractors, we've seen stability which has been encouraging. The last 2 quarters we've seen single digit declines. We expect that to model through the bottom as we get through Q3. And then our expectations, which we outlined in our guidance, we do expect beginning in Q4 towards the end of the year, you're going to see an uptick in used truck pricing.

What's really benefiting us as we look forward is going to that this 2027 engine technology change, as we saw back in '06, '07, will help used vehicle pricing, especially in that Class 8 tractor class. You'll see prices move up ahead of the 2027 change and they should be at elevated levels.

Christyne McGarvey: Great. Let's talk about balance sheet a little bit. And free cashflow.

John Diez: Okay, this is the fun stuff?

Christyne McGarvey: Well, bigger audience, right? This should be the fun stuff for everyone here. Free cashflow I think is just slightly positive this year. Obviously, we've seen a lot of improvements in the last couple of years, there hasn't been as much fleet growth. Talk about the balance of possibly more fleet growth in the outyears and what that might mean for CapEx and free cashflow. But also, I think you do have a decent amount of opportunity on the balance sheet and the ability to reinvest and kind of what the capital priorities are for you guys?

John Diez: No, that's great. And I enjoy talking about the framework that we operate in. Being capital intensive, especially with our lease profile, obviously we'll go out and sign a lease, then we'll order a truck. And we have a huge cash outlay at the beginning that we recover over the next 6 to 7 years. As we grow the lease fleet, naturally you're going to see negative free cashflow from that business.

As we scale the other parts of the business, and we've improved the earnings profile of our fleet management business, what we've seen, which is really exciting is, even in times of growth, we're able to not only generate positive free cashflow, but at the same time, the business de-levers quite a bit. As we de-lever, we have the balance sheet capacity to take on more debt to either underwrite growth on the organic side, buy through acquisitions, buy new services like we've done with supply chain and the most recent acquisition of dedicated.

And then more exciting, with this earnings power, we've been able to deploy capital back to our shareholders. From 2021 to today, we've been able to return about \$1.3 billion back to our shareholders by way of higher dividends, and also, through buybacks. Really, the expectations for us with this fleet growth profile that we've set out of 2,000 to 4,000 units, we should have ample capacity to, even in times of negative free cashflow, be able to participate in either opportunistic acquisitions, as well as continue to improve the dividend and do share buybacks over time.

Christyne McGarvey: Great. Maybe now the real fun question. I think you guys have a very interesting approach to technology. Including your own venture fund. Maybe just talk a little bit about the process, how you guys think about what you build, what you buy, what you partner with. And what have been some of the fruits from those initiatives and kind of what the tech priorities are the next couple of years.

John Diez: Yeah. No, great. We've been really focused on, and we use the term customer centric innovation, really focused on listening to our customers. We've had the good fortune of having now for multiple years a customer advisory board that really orients us to, what are the gaps out there from a technology perspective? What are the things they see value in and where can we participate in that? With that framework, we've been able to develop new products for our customers. Ryder Share is one that has garnered a lot of traction and attention which is a visibility tool that we've been able to deploy to our customers. And the important part of that wasn't visibility, but was the ability to collaborate with our customers. And they've seen tremendous value in managing their labor on their side, communicating back to their customers and improving overall customer service. That's just one element.

We've also done this in the ecommerce fulfillment space with our Whiplash platform that we purchased. In last mile, we have a great technology solution there where we're able to give status updates to our customers as to when our team is going to arrive, what the expectations are, and then follow through with any follow-up activity through our digital platform. We continue to invest there.

The other aspect of it is, we have the venture fund that you called out. What we try to do there is, if we see emerging technologies that can deliver value for our customers, we'll make a small investment in those companies. They're typically startups. We'll test them, do some piloting within our network of different solutions where they could maybe create value for us. And one of them, Baton, was a company we initially made an investment in and then we bought the company. And that team now is creating technology solutions for our dedicated and supply chain businesses.

Christyne McGarvey: Wonderful. We have a couple of minutes left, so I'm going to pause to see if there's any question in the audience?

Unidentified Speaker: Great. Thanks, John. You mentioned that you felt the Chevron deference is not going to be a big deal to the EPA 2027 standards. Can you expand on that a little bit more? How

do you think could the OEMs work around that? And also, a little more color on your EV trucking strategy would be good. Thanks.

John Diez:

Sure. The Chevron doctrine that has been in place since obviously the Supreme Court ruling, really we think that will be debated in the court system and it's going to take a few years before that gets ironed out. With that in mind, the OEMs have the technology to deliver for 2027. I think fleets also are geared up for that transition. I would not expect, and it's our belief that that will not get altered between now and 2027 even despite what may happen with the presidential election. But anything is possible, but that's our belief today.

You asked about EV. Clearly, we're well positioned to help fleets in the U.S. and Canada in their transition to EV. We put out a white paper that's out there and what we're seeing on the EV space is the light duty commercial vehicle is very much on par with a traditional gas or diesel-powered vehicle. We have seen some uptick in demand there. Candidly, we haven't seen as much as we would expect. On the medium duty side, the costs are significantly higher, about 20% to 30% higher. And then on the Class 8 side, they're almost double to operate that vehicle.

I think those classes will take some time as the technology improves and the infrastructure becomes less of a challenge there. But on the lighter duty, where the infrastructure exists for passenger vehicles and they can leverage that infrastructure, we may see an acceleration there. But right now, we haven't seen the level of acceleration and demand uptick as we would have expected early on.

But we've got a great solution where we work with our customers, we help them evaluate the alternatives from a technology perspective, introduce the infrastructure into their footprint as well, and then monitor the performance of those units going forward. That technology is out there and that solution is out there for customers. But I think it is a few years away before we see broad adoption across the industry.

Christyne McGarvey:

Great. We are literally right on time, almost to the second, so well done. But thank you so much for joining us. Everyone, appreciate your time.

John Diez:

Thank you. Appreciate it.