Ryder System, Inc.

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Brandon Oglenski: Good afternoon, everyone. And again, welcome to day two of Barclays' 43rd Annual Industrial Select Conference. I'm Brandon Oglenski, airline and transport analyst joined by Dave Zazula here on our team as well. And very happy, I think, for the first time ever to have Ryder Systems at our conference. And I know we've been doing this conference in Miami a long time. We probably should have done this many years ago, Robert. But we are joined by Robert Sanchez, Chairman and Chief Executive Officer, and almost on your way out. So congratulations on that.

Robert Sanchez: I spent years knocking on the door here trying to get in. And finally, I'm in. So, yes.

Brandon Oglenski: Well, I'm glad we got you in here for one. But hopefully, the first of many for your company. So like we've done in the past, for those in the audience here, if you could just pick up the little keypad in front of you, we'll queue up question one. Do you currently own Ryder, yes, overweight; 2, market weight; 3, underweight or 4, no ownership. And thanks, everyone, for participating. Again, we do compile these and publish them, post-conference.

Okay. And question number two, please. What's your general bias towards Ryder right now, positive, negative or neutral? All right. And then please, question number three. In your opinion, through-cycle EPS growth for Ryder will be above peers, in line with peers or below peers.

And Robert, again, thank you for coming down here. If we can vote there. Thank you. Appreciate you coming again. Can you just give us your perspective here as you've really driven a lot of change at the company, just where do you-- what are you most proud of? And where do you see it heading?

Robert Sanchez: Yes. I think those who have followed the company for the last probably five or six years, you've probably seen the transformation we've been on. We called it our balanced growth strategy. We really adopted this back in 2019. It have been around for over 90 years. So it's not like we're new to the business. But certainly, as we got into 2015, '16, '17 and '18, we went into a period of an extended used truck downturn and really forced us to reevaluate our business model and understand how do we derisk this business and be less -- not be so reliant on the used truck market, which a lot of investors were looking at Ryder almost like a proxy for the used truck market, which was kind of crazy considering all the other things that we do. And then how do we improve the returns, make it less reliant? And then what should the portfolio look like?

So we focused on from a derisking of the business, we said, look, one of the key issues here that's driving all this reliance on the used truck market has been the way that we price our leases. We were pricing our leases to an average residual value. We look at the last six years and say, what's the average used truck price spend? That's what we're assuming it's going to sell six years from

now. Some years, you were better, some years you were worse. When the used truck market was within a certain band, you were over 50% of the time and below 50% of the time.

But as we got into that 2015, '16, '17 time period, we spent three years on the bottom end of that. And that meant that all these leases that we had signed six years prior that we had done all this great work, maintain the truck, done all the road calls in the middle of the night, taking care of the customer, all those deals ended up being negative return deals. It's kind of crazy that we do all this work and at the end, it all relies on that final used truck price.

So we reduced the assumption that we were making on that residual value to be really bottom quartile to the average. And that way, most of the time, we were going to at least get the return that we expected. So that in and of itself created a significant derisking. We also exited some geographies and services that we were in that weren't giving us a good return.

And how do we improve the returns? Well, we historically have been targeting a 60 basis point spread on those leases. We increased that target to 150 basis points. So now we're making more money on each of those leases. We also went and challenged our organization with $1.2 billion maintaining trucks. Can we find $100 million by improving the efficiencies of these 4,500 diesel technicians at locations that we're working, targeted that, went after that. Those initiatives, really the maintenance initiative and the pricing initiatives are the big drivers, equated to over a multiyear period, end up being $300 million of annual cost savings that we were able to take out of the business.

So if you consider a business that we were- our earnings before tax were about $300 million, $400 million, but the volatility of rental and used trucks is about $200 million, you had a lot of volatility in that earnings. Now the business is making $700 million. You could still have that $200 million, but it's obviously a much smaller piece. So that was the derisking and the improving of the returns.

Then we looked at our logistics and dedicated business, asset, more asset-light, good return contractual business. How do we disproportionately look to grow that, made some acquisitions, spent some money on sales and marketing and really being able to grow it organically. And then those two businesses who were -- if you go back 10 years ago, we were about 35% of the revenues of the company are now 60% of the revenues of the company. So moved more towards the contractual parts of the business, more towards the asset-light, and that's the portfolio that we're running today.

Brandon Oglenski: We just had Patrick Kelleher up here, the new CEO of GXO, actually gave you guys a shot at as a competitor that he looks towards matching or beating in the future, but definitely giving some respect. So I think you've gotten some recognition in the market. I guess in the near term, though, folks have been really focused on used truck values again, right, because that does impact your earnings, which has been a little bit more challenged in the current environment. I don't know, we've been asking all the companies up here, are there any potential green shoots because short-cycle industrial measures have gotten better, PMI is obviously better. We've seen truckload spot rates come up. From your perspective, is the market improving? Or is it more of the same this year?

Robert Sanchez: Yes. Look, we just gave our full year forecast, and we're going to show earnings improvement again this year. But without a whole lot of help from the market, it's mostly these initiatives and self-help programs, about $70 million improvement there. We're not assuming a pickup in the second half necessarily only because we assume that the last two years and it didn't happen. So we figured this year, we won't assume and see if it does happen. But the guidance that we gave really didn't account for that. If there is a pickup, obviously, we should do better than the range that we gave.

Are we seeing anything? Not yet. The PMI being above 50% is always a good thing. That helps manufacturing should help the freight market. Spot rates being up is a good thing also. It's an early indicator. The FTR truck utilization being over 95% is a good indicator. That's also up. So these are all good things. It usually takes about 6 months for us to see it in our rental and used truck business. So if these things stick towards the second half of the year, we should see some improvement, but we haven't seen it as of yet. We're seeing just kind of stable bumping along the bottom type activity.

David Zazula: So just doing the math, right, on the center of where it is in the 1Q guidance versus the full year, it does imply some acceleration in earnings. You're saying that's not due to the market, it's due to some other things that are going on.

Robert Sanchez: Primarily due to our initiatives and our self-help. So we identified $70 million coming from some lease pricing still trickling into '26, some maintenance cost initiatives that we've got line of sight to that we feel good about and also rationalizing some of our omnichannel retail network, and we got line of sight to that. And then also the layering in of our new supply chain accounts. So we had a really strong sales here in our logistics and supply chain business, record actually. Those deals will start layering in here in '26 and really hitting their stride in the second half. So we expect to start to see the benefits of that in the second half.

David Zazula: And that's about a six-month ramp from the time.

Robert Sanchez: It's about six months, yes.

David Zazula: Right. And is there some start-up costs associated where the margin initially is lower and then that further ramps from that.

Robert Sanchez: Margin- there's a little bit, but that's not the bigger issue. The bigger issue is just really getting those ramped. Also, I should mention in automotive, we had a really strong first quarter last year with a lot of auto production. Some of those plants are extending their shutdowns this year. We had a little bit of lost business, too. So that also created some headwind year-over-year with the first quarter.

David Zazula: And we talked on the earnings call, it sounds like the outlook for that is still pretty tepid, the manufacturers you're talking to are at least fairly cautious in the near term.

Robert Sanchez: On the- again, on the truck leasing and on the dedicated side, yes. On the supply chain side, we are seeing customers making decisions. We have- as I mentioned, we had a record sales year last year, new contracts being signed, especially in the omnichannel retail sector. And we feel really good about the prospects. Our target for that business is double-digit top line growth, and we expect to end the year really approaching that level as all these new contracts layer in.

David Zazula: So you used to growth prior to this change plan have fleet growth that was a little bit higher. You've reduced down to 2,000 to 4,000. What has that allowed you to do? How has that allowed you to have more stable earnings with that type of fleet growth?

Robert Sanchez: Well, I think it's been the trade-off of price versus volume, right? So we were growing prior to balanced growth, we were growing our lease fleet about 10,000, 11,000 units a year. So when we made the decision to increase the spread, we knew there'd be some impact on that growth. That trade-off works for us. I'd rather grow 2,000 to 4,000 at the spread that we're at 150 and then growing 11,000 at the 60 basis point spread. So that's really been the trade-off. I think overall in the marketplace, there was a little bit of market share loss initially, but that has- as the market has kind of moved with us, it's stabilized.

David Zazula: And you think 1% loss last year in terms of revenue growth, the long-term target of mid-single-digit growth for fleet management, even up to 2,000 to 4,000 units per year, you think that's comfortable you can get there?

Robert Sanchez: 2,000 to 4,000 gets us to that mid-single-digit growth rate. Now if the market really takes off and we -- at the pricing that we're at, and we see that we can grow more than that, we will. But we want to -- I think it's important for us to make sure we maintain our pricing discipline.

Brandon Oglenski: And maybe a bigger issue too, just on tariffs and truck pricing going forward. How has that impacted the new truck market?

Robert Sanchez: So we're one of the largest buyers of commercial trucks in the country. So as these tariffs, there has been already some impact from tariffs, especially initially some of the steel and aluminum tariffs. So as those get layered in, we build them into any new leases, so we pass it through as we do with any cost that comes in. We're competing against a truck buyer having being able to buy the truck on their own. They're going to have the same issue. So they do get passed through. I think we'll see how that goes. I think right now, some of these OEs are a little tepid to pass them through knowing that the market is soft. But as the market picks back up, I would assume some of that's going to start coming through.

David Zazula: I think we've heard from some of the trucking type providers that supply is coming out of the market due to government regulation that's helped on the rate side. Are you seeing/hearing anything from your customers about it hurting you on the demand side just in that there's fewer drivers out there in the market, less demand for trucks? Or is that a different segment of the market maybe that you think?

Robert Sanchez: Most of our customer base are private fleets. So these are folks that are not in the trucking business, but they have -- they need trucks to deliver their products to their customers or pick up. So they're more -- the private fleets really ramped up during COVID, and they've had to now scale down. So we've seen that in our lease fleet has come down. Our dedicated business hasn't been growing at the pace that we want. We think that's kind of getting to its equilibrium. It usually happens once the freight market stabilizes, and then we'll see that move back up.

But we haven't yet. We- I mean the driver market is still relatively loose. I think as that tightens, you're going to see more companies, private fleets looking for companies like Ryder to help them as they struggle with hiring new truck drivers.

David Zazula: And the EPA 2027 standards, has that impacted the market one way or another?

Robert Sanchez: Not yet. We haven't had a lot of pre-buy requests yet from our customers. We have some, but not -- there's not a big push like we've seen in other technology changes. I think if the market starts to come back and the market begins to tighten, you may see more companies wanting to jump in prior to the change.

Brandon Oglenski: Are we keeping those EPA standards or-

Robert Sanchez: Yes. The bulk of the standards are staying. What I think is changing is the need to- for the OEs to provide a warranty throughout the entire life of the vehicle. I think that's being rolled back, which was a significant cost factor for them.

David Zazula: With respect to Dedicated, we hear a lot of companies talk about having a dedicated offering. But you guys surveyed different segment of the market, maybe a little bit more specialized. Maybe just give us an overview of what you've done with the Dedicated segment and where you think it can grow from here?

Robert Sanchez: Right. So Ryder has been in the dedicated business, I think, since 1945 when we first started delivering newspapers for the Miami Herald. So what we do is more specialized dedicated. There's

very few of our accounts where we're taking a product from one dock door and delivering it to another dock door. It typically requires our driver to do something beyond just drive the truck. So you think about -- we do a lot in the metals industry. Metals are being run on a flatbed. There's a crane that the driver needs to operate to be able to move the metals off. That's the kind of business we do. Deliveries even to stores where it's not a dock door, it might be in a strip mall and we have to- driver has to get out and bring totes into a store, we do that type of business. So that's the segment that we have always been in. We're the second-largest provider in that segment, and we've got a very competitive service offering there.

David Zazula: And I think your long-term target, high single digits. I mean you set the company up pretty well over your time. Do you think that's the right target going forward, even though the market has been a little tougher lately?

Robert Sanchez: This being my last conference, I'm in a position to start raising all the long-term targets. But I guess I should probably just stick with what I got, which is high single digits, I think, is a reasonable target for that industry and the business that we're in.

David Zazula: And you think this year is maybe a little tougher? Is that more going to be where you're trying to get to next year? Or do you think?

Robert Sanchez: Yes. If you think about it, that business benefits from -- all of our businesses, we're in the outsourcing business. So anything that makes what we do difficult is good for us. So in a tight market where private fleets are struggling with their equipment or struggling with getting drivers, that's a positive for Ryder. They're more likely to then look for somebody like Ryder to help them. So right now, driver market has been pretty loose. As that begins to tighten, I think you're going to see more companies look for help.

Another area is safety. Companies who don't do trucking or transportation for a living, maybe don't have the same safety programs and- that Ryder has. So we have had other customers now getting into big insurance claims over accidents and they decide, you know what, why am I in this business? Let me go find somebody who does it. We've got a very robust safety program. We've got in-cab cameras. We got all kinds of stuff to better manage that, and we're seeing companies look to outsource because of that.

Brandon Oglenski: If I can just ask one on that, Robert, I guess we've seen with a lot of our coverage in the trucking and freight space, like insurance costs have just been through the roof. Is that something you guys are experiencing, too? And how are you mitigating that?

Robert Sanchez: Across different areas. So clearly, on the BIPD side and on the vehicle insurance side, it's our safety programs, right? That's what we- safety is the #1 priority at Ryder. We've got 50,000 employees. We have a very strong safety culture. So we implemented in-cab cameras probably before most people did. We've had them in place, I think, since 2016. It's been a big game changer for us in helping us coach our drivers and really drive the safety culture.

We are seeing as many companies across the industry, medical costs for our employees really come up. We're doing what every other company is trying to do, figure out different ways of managing through that, but that is a real challenge, I think, for all of us.

David Zazula: You made an acquisition somewhat recently, Cardinal Logistics. I think you've targeted $40 million to $60 million in synergies. What's the breakdown there? Is there a risk to not getting there by the end of the year? And is there maybe some upside or additional things you're learning as you've integrated them?

Robert Sanchez: Yes. That was a good acquisition. We're very selective about our acquisitions. That was a company that is, I think, well run, good contracts. We identified $40 million to $60 million of initiatives. We've delivered on that through 2025, a little bit trickling in this year, but most of that is already

executed on. A lot of it was for those contracts, they were outsourcing their equipment to third parties or doing it themselves, doing their own maintenance, putting that through the Ryder network, brought a lot of savings because we buy a lot of trucks. We're very efficient in how we manage them and maintain them, and we're able to bring a lot of savings to the operations that way, along with some overhead and things that we did there.

David Zazula: And that maintenance product, you can leverage that across the businesses, not just for dedicated as well, the turnaround strategy.

Robert Sanchez: Yes.

David Zazula: Sure. I mean Supply Chain Solutions, I think you already mentioned ramping up towards the high-low double-digit target in 2022. Just what are the puts and takes? What are the different subcomponents of the business we should be thinking about? And what do you want to grow within supply chain long after you've gone?

Robert Sanchez: So the key with supply chain across whoever is doing it is execution. You have to be able to execute well if you're going to expect a company to hand over an important part of their supply chain to you. So we've been in the business for a long time. We've learned. Sometimes I think we paid a lot of tuition to over the many years. We're very good at execution. We have a- start-ups are probably the toughest part when you start up a new account. We have start-up effectiveness teams that just fly around and only do start-ups to make sure we are able to flawlessly execute on that. So we feel really good about that, and we feel really good about the capabilities that we have there. That's why we win. That business, though, is evolving where we operate in four industry verticals. So we don't try to do everything for everybody. We're very good in automotive, inbound automotive, logistics, one of the leaders. Omnichannel retail, which is our fastest-growing segment now, where we're doing business with a lot of the retail companies and running distribution centers for them. We're in the CPG business, the CPG vertical. So think about food logistics, we do a lot of business with CPG type companies. And then we're also in the high-tech and health care verticals. So continuing to focus on the port-to-door services that we provide. We're able to run the facilities, the warehouses. We have over 100 million square feet of warehouse space that we run. We have a transportation management service that we can manage not just Ryder’s trucks, but also third-party freight. We -- I think it's over $10 billion of freight that we manage for our customers act as a traffic department. We have final mile delivery capabilities, especially the big and bulky products. And we also have an e-commerce fulfillment capability there. We're able to do consulting services. So anything that you need port-to-door in North America, we can provide through our supply chain and services.

Brandon Oglenski: I think that's a differentiating point in your business offering, isn't it?

Robert Sanchez: It is today, yes.

Brandon Oglenski: A lot of competitors you run up against are just doing everything inside the building, right?

Robert Sanchez: Correct. Correct. So we're able to offer all the services. Once you get to the port, we're able to offer all the services all the way to the end consumer.

David Zazula: And the margin in that business has actually really come up even though it's been a pretty bad environment in terms of freight. I mean should investors- how do they think about that when looking at history? Is this something where you actually get a little bit of better margin in times of lower demand? Or is it something where due to your self-help initiatives, that's really what's been driving the margin?

Robert Sanchez: Yes, it's a contractual business, right? So it's not so much volume driven. There is some volume to it, but mostly it's contractual cost-plus type business. So I think it's been the discipline over time of making sure you're signing good contracts and then your ability to execute on those contracts.

That's what allows you to achieve the returns that we're achieving. And our target returns there are high single digits, which is kind of where we've been at.

Brandon Oglenski: And just the U.S. business? Are you targeting global opportunities as well?

Robert Sanchez: We made the decision years ago to focus solely on North America. We've been in different parts of the world in South America, Europe and really struggled. We struggled being great everywhere, and we said, let's just be great in North America. This business -- this economy is very large. In that business, probably 75% of the business is still not outsourced. So to the extent we can chip away at that, that's plenty of business for us to be -- to get.

David Zazula: On the warehousing side, you've done pretty well in terms of revenue. I mean how much has that been due to new customer wins? What has the commercial team been focusing on in that area of supply chain?

Robert Sanchez: Yes. So we've had some new customer wins, but a significant number- amount of our growth comes from existing customers. So we may go into- by the way, most of our customers there are large Fortune 500 type companies. So we could go into an account where we win one location out of- maybe these are customers that have 10 distribution centers around the country. We win one. We prove ourselves with our start-up effectiveness, with our ability to execute, and our ability to bring continuous improvement even when compared to the other nine. And then the customer says, okay, well, I'm going to give you the second one. I'm going to give you the third one. So typically, that's how we grow is by continuing being able to expand and then expand services. So if you're doing the warehousing, I also -- let me do the transportation. Or if I'm doing the transportation, let me try the warehouse.

Brandon Oglenski: Dave, we should probably get to -- can we do ARS question #4, please? Because we're running out of time here. So for those in the room, if you don't mind picking up the keypad. In your opinion, what should Ryder do with excess cash, bolt-on M&A, larger M&A, share repurchases, dividends, debt paydown or internal investment? Share repurchases.

Robert Sanchez: No one thinks we should pay down debt, I'm surprised.

Brandon Oglenski: Question #5, please. In your opinion, what multiple of '26 earnings should Ryder trade? You see the range there. I appreciate the vote.

David Zazula: They just think with your-

Robert Sanchez: Can I vote or-

Brandon Oglenski: We've yet to get remote up here.

David Zazula: I guess with your earnings, I just think debt capacity, they saw that slide in the slide deck.

Brandon Oglenski: And then if you all don't mind, question #6, what do you see as the most significant share price headwind facing Ryder - core growth, margin performance, capital deployment or execution and strategy? And again, thank you for participating.

David Zazula: Well, you mentioned debt. I think you targeted range 2.5x to 3x. Certainly, what you do on the FMS side, very capital intensive. How does that play into the cycle? When do you think about 2.5x? When do you think about 3x? Do you think now is the time to go near the high end of the cycle with potentially some growth coming next year?

Robert Sanchez: Yes. No, we- I think in order for us -- first of all, our business based on the earnings power of the business right now, and we're talking debt to equity, we tend to delever on any given year. Even if we're growing at this point, the amount of earnings that we're generating, if we were growing our lease fleet by 10,000, 11,000 units, we would still delever. So from an organic standpoint, short of

significant acquisitions, the business is likely to continue to delever. So what we would do then is look to do share buybacks and continue to drive -- keep us close to that leverage ratio, right? So we're on the low end of that, and unless there's a big acquisition opportunity that we see that would move us there, we're likely to stay in that range.

David Zazula: It sounds like you're in line with what your investors are looking for here. I guess short-term net capital expenditures, I think, $1.9 billion this year. What's the breakdown there? What do you think in terms of power equipment? What can we expect on the CapEx side?

Robert Sanchez: So the capital that we're expecting this year for leases is almost entirely -- I think it's entirely replacement. So we're not assuming any growth in our lease. We're actually seeing a slight decline. In rental, a very minimal purchase, I think we were doing $100 million of rental. On a good year, we could be doing $600 million, $700 million of rental CapEx. So until we see really a pickup in rental, we're not going to pull the trigger on that. And then on the lease, it would be- we don't buy a truck until we have a signed lease. So when customers are ready to sign up to more fleet is when we'll be ready to buy more vehicles.

David Zazula: And from what you were saying earlier, it sounds like customers are at least on the cautious side right now in terms of expanding the fleet.

Robert Sanchez: Correct. We're not seeing a lot of expansion yet. But I've been through- I've been with the company 33 years. I've been doing up of these cycles until the light switch turns on and then everybody wants trucks immediately. So we're waiting for that opportunity.

David Zazula: And that replacement cycle that you're going through this year, that's going to maintain your average equipment age kind of similar to?

Robert Sanchez: It's a little bit long for us right now. So even with this replacement, we'll still be a little bit longer than we prefer. But again, we typically run on the lease business, we match the first life of the vehicle with the lease, so at the end of that lease, it's ready to go to the used truck center. If it still has life, we do have an asset management process to redeploy it into another application. But generally, it's- the replacement cycle happens as the leases term out.

David Zazula: And that's really a big advantage to the business model is you have so many different ways that you can make use deploy.

Robert Sanchez: We can put it in our dedicated business. We can redeploy it to supply chain. We can deploy it to rental. So there's a lot of asset management moves we can make.

Brandon Oglenski: Robert, we only have less than two minutes left here. Really appreciate you being here. But as you get set to leave Ryder, I mean, what legacy do you want at the company? And what's most exciting that you think is going to be five years from now?

Robert Sanchez: Yes. Look, I mean, the nice thing about- I've been with the company, as I said, for 33 years. I turned 60 last year. I had always had a goal of once I hit 60, I wanted to be able to move on. If things were going well; things are going well. I think we have positioned the company well. We've got $250 million of earnings uplift between here and the next peak of rental and used vehicles coming back. We have a strong contractual portfolio. We've got great leadership that's really in place and coming up. John has been with the company for over 20 years. I've worked very closely with him for most of that time, along with Cristy, our CFO; Steve Sensing, who runs our supply chain business; Tom Regan runs Dedicated and Tom Havens, our fleet management business. These are all folks who have been with the company a long time, understand the business really well, have all actively participated in the development and execution of this balanced growth strategy. I'm confident they're going to continue and take it to the next -- there'll be another chapter, and they're going to write that chapter well and make sure that we're getting -- continuing to grow the company and continue to have good returns for shareholders.

Brandon Oglenski: Thank you very much for coming. Really appreciate it.

Robert Sanchez: Thank you for having me.

Brandon Oglenski: Congrats on retirement.

Robert Sanchez: Thank you.