

**Conference Title: Ryder System First Quarter 2023 Earnings Release Conference Call**

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Operator: Good morning and welcome to the Ryder System First Quarter 2023 Earnings Release Conference Call. All lines are in a listen only mode until after the presentation. Today's call is being recorded. If you have any objections, please disconnect at this time. I would now like to introduce Ms. Calene Candela, Vice President, Investor Relations for Ryder. Ms. Candela, you may begin.

Calene Candela: Thank you. Good morning, and welcome to Ryder's First Quarter 2023 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 conference 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 Global Fleet Management Solutions and Steve Sensing, President of Global Supply Chain Solutions and Dedicated Transportation, 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 pleased with the strong first quarter results delivered by the team despite a weaker freight environment. We're continuing to demonstrate meaningful progress on our balanced growth strategy, which I'll highlight on our call

this morning. I'll begin today's call by providing you with a strategic update. John will then take you through our first quarter results. We'll then discuss our outlook.

Let's begin on slide four. Longer term secular trends, including escalating demand for supply chain resiliency, increasing nearshoring activity and ongoing demand for e-commerce fulfillment solutions provides significant opportunity for long term growth. Regardless of near-term freight headwinds, we view these long-term growth drivers as intact. We continue to execute on our initiatives to increase returns, de-risk our business and drive long-term profitable growth. Executing on these initiatives, not only benefits results in the quarter, but also - but more importantly, positions us to outperform prior cycles. Our strategic investments remain focused on opportunities for long-term profitable growth and our focus primarily on accelerating growth in our higher return supply chain and dedicated businesses.

We generated ROE of 27% for the trailing 12-month period, which is well above our high teens target, reflecting elevated market conditions in FMS as well as benefits from our initiatives. These initiatives include pricing and cost recovery actions, which benefited returns in all segments. We're also executing on our enhanced asset management strategy, which we shared during our Investor Day. This strategy is focusing on - is focused on positioning the business to generate higher earnings in each phase of the cycle. Our strong balance sheet and solid investment grade credit rating provides us with ample capacity to pursue targeted acquisitions and investments, as well as return capital to shareholders. Our full year 2023 free cash flow forecast remains unchanged at \$200 million.

We continue to make meaningful progress on our balanced growth strategy, which allows us to balance top line growth with returns and free cash flow and ultimately increase shareholder value. Our key strategic priorities are focused on de-risking our business model, improving returns and free cash flow over the cycle, and positioning the business for long-term profitable growth. As it relates to de-risking and optimizing the model, several years ago, we lowered the residual value

estimates used in - for lease pricing to historically low levels. This action reduces our reliance on used vehicle proceeds to achieve target returns and improves the return profile of our lease portfolio. We've also exited underperforming businesses and geographies as we continue to optimize our model.

Last year, we substantially completed the exit of our FMS business in the UK and redeployed the proceeds to higher return opportunities. We also discontinued our lease insurance product line in 2021. In late 2021, we began adjusting our dedicated contracts in order to better insulate us from labor cost variability. We negotiated rate increases with our customers which are benefiting current results, and also began to adjust contract terms upon renewal to facilitate quicker, more efficient cost pass-through in the future. This is a multiyear initiative with approximately half of DTS revenue under the new contract structure.

We also executed important initiatives to increase returns and free cash flow. Our lease pricing initiative continues to be a key contributor to higher returns in FMS, with incremental benefits expected to - expected as the remaining 35% of the portfolio is priced at higher returns. This initiative is expected to be fully implemented by 2025, with an estimated total annual benefit of \$125 million. Pricing actions in dedicated and supply chain to address higher labor and other costs are benefiting returns in both segments. We're also exercising enhanced capital allocation discipline by targeting moderate growth in our capital-intensive lease business and investing rental growth capital in trucks due to more favorable trends in this asset class relative to tractors.

Accelerating supply chain and dedicated growth is a key driver to achieving long-term profitable growth. 54% of Ryder's 2022 revenue was from supply chain and dedicated, up from 37% in 2015, reflecting secular trends and our initiatives to accelerate growth in these high return businesses. Supply chain and dedicated also generated strong sales of new long term customer contracts in 2022, which we expect will continue to contribute to profitable growth. Our strong balance sheet has enabled us to fund organic growth as well as strategic acquisitions. M&A and

investments focused on expanding our capabilities continue to be a key part of our strategy to accelerate growth in our higher return supply chain and dedicated businesses. Overall, we continue to demonstrate significant progress on our balanced growth strategy, with plenty of opportunity ahead for increased returns, cash flow and shareholder value.

Turning to page six. A key secular trend favoring logistics outsourcing is escalating demand for supply chain resiliency. Nearshoring in Mexico is a strategy that supply chain decision makers are increasingly pursuing to reduce the risk and increase the resiliency of their supply chains. Market data shows meaningful increases in cross border activity between Mexico and the US, as well as increased investments in nearshoring. The number of truck border crossings has increased more than 20% per year since 2020, and approximately 40% of new industrial space in Mexico was attributed to nearshoring activity in 2022. As a leading provider of logistics solutions in North America, Ryder Mexico is well positioned to meet the increased demand.

With 30 years of operating experience, Ryder Mexico currently manages about 250,000 border crossings annually between the US and Mexico, and also manages more than 40 distribution centers. The company has a long presence in key entry ports, as well as the Golden Triangle, which encompasses Mexico City, Monterrey and Guadalajara.

A key differentiator for Ryder Mexico in the marketplace is its ability to offer a full range of supply chain services through highly integrated distribution and transportation operations in Mexico, the US, and Canada. Ryder Mexico also benefits from long standing relationships with local carriers, customs brokers, as well as US parent companies. Proprietary technology leveraged in-country provides visibility and security to all shipments. Ryder Mexico has the proper credentials and distinctions to perform secure and efficient border movements and support export activity for foreign based manufacturers.

Ryder Mexico has over 120 customers, which are primarily US-based Fortune 500 companies. We continue to see increases in our sales pipeline for Ryder Mexico, with approximately 20% influenced by nearshoring. Current pipeline activity related to nearshoring is largely from the automotive and industrial verticals. With its ability to leverage demonstrated operational expertise, customer relationships and nearshoring trends, we're excited about the long-term growth opportunities available to Ryder Mexico. I'll turn the call over to John to review our first quarter performance.

John Diez: Thanks, Robert. Total company results for the first quarter on page seven. Operating revenue was \$2.3 billion in the first quarter, up 6% from the prior year, primarily reflecting revenue growth in SCS. Comparable earnings per share from continuing operations were \$2.81 in the first quarter, down from \$3.59 in the prior year, reflecting normalizing conditions in used vehicle sales and rental in a supply chain asset impairment charge partially offset by lower share count and higher earnings in DTS.

Return on equity, our primary financial metric, is 27% and remains well above our high teens target due to elevated market conditions in UVS and rentals. Free cash flow for the first quarter was generally in line with prior year as increased capital expenditures were largely offset by higher proceeds from the sale of operating property and equipment, reflecting about \$40 million of proceeds from the sale of our headquarters building.

Turning to page eight. Before discussing segment results, I'd like to highlight a change we've made to our segment EBT metrics. Beginning this quarter, we redefine our segment EBT metric to exclude amortization of customer intangible assets, in addition to other items that were already excluded. We're excluding this expense from our primary measure of segment performance because we do not consider intangible amortization expense a driver of underlying segment performance.

Pages 32 and 33 in the appendix provide recap segment results for the years 2020 through 2022, reflecting this change. The change did not have a material impact to segment results or performance trends.

Turning to FMS results. Fleet Management Solutions operating revenue decreased 2% as 4% operating revenue in North America - as 4% higher operating revenue in North America from increased SelectCare and ChoiceLease was more than offset by a 6% negative impact from the UK exits.

Pre-tax earnings and fleet management were \$182 million, down from the prior year primarily due to lower results in used vehicle sales and rental as anticipated. Lower used vehicle pricing was partially offset by higher sales volumes.

Rental utilization on the power fleet was seasonally strong at 75%, representing our second highest level of first quarter utilization, but below our record levels in the prior year of 82%. Lower utilization on larger fleet was partially offset by a 3% increase in power fleet pricing. FMS EBT as a percent of operating revenue remained strong at 14.4% in the first quarter and 19.1% for the trailing 12-month period, both above the segment's long-term target of low double digits.

Page nine highlights used vehicle sales results in North America for the quarter. Consistent with our expectations, market conditions for used vehicle sales continue to normalize from elevated levels in the prior year. The environment continues to benefit from ongoing challenges with vehicle availability. Compared with prior year, used tractor proceeds declined 35%, reflective of weaker freight conditions, while used truck proceeds declined 16%. On a sequential basis, proceeds for tractors decreased 10% in line with our expectations, and proceeds for trucks decreased 7% better than our expectations.

During the quarter, we sold 5,100 used vehicles, up sequentially and versus prior year. This reflects higher lease replacement and rental depleting activity. Used vehicle inventory increased to 5,100 vehicles at quarter end and remain at the lower end of our historical levels. Although used vehicle pricing declined, proceeds remained well above residual value estimates used for depreciation purposes. Slide 20 in the appendix provides historical sales proceeds as a percent of original cost and current residual value estimates for used tractors and trucks for your information.

Turning to supply chain on page ten. Operating revenue increased 19% with strong organic revenue growth in all industry verticals, reflecting new business, higher volumes and increased pricing. Beginning this quarter, we introduced the omnichannel retail vertical to our SCS revenue presentation to provide better visibility to our revenue mix following recent acquisitions and organic growth. This new vertical includes retail, e-commerce fulfillment, big and bulky delivery by Ryder Last Mile and high-tech. Like 30 and 31 in the appendix provide a recast revenue presentation for the prior three year period.

SCS EBT decreased 60%, reflecting a \$30 million asset impairment charge related to a customer bankruptcy. As some of you may be aware, SCS provided or supply chain provides distribution management services at two warehouse locations for Bed Bath & Beyond, which filed for bankruptcy this week. In the fourth quarter of 2022, we took an impairment charge for the specialized sortation and conveyor equipment in the California warehouse, which Bed Bath & Beyond terminated early. The impairment charge this quarter is primarily for the equipment in the remaining Pennsylvania warehouse.

As we mentioned on our last call, this customer credit profile is not typical of our supply chain business as approximately 80% of the revenue comes from our single customer operations as with investment grade companies. In addition, most have limited special equipment investments.

Supply chain results were also impacted by weaker trends in the omnichannel retail vertical, which were partially offset by earnings from revenue growth, primarily in the automotive vertical.

Supply chain EBT as a percent of operating revenue was 1.9% in the quarter, down from the prior year and below the segment's high single digit target range. Reported EBT excludes the amortization of customer intangibles from acquisitions as previously noted.

Moving to Dedicated on page 11. Operating revenue increased 9%, reflecting pricing and increased volumes. Dedicated EBT increased 45%, primarily due to revenue growth as well as improved hiring conditions for professional drivers. We began to see improvement in the number of open positions and time to fill for our professional drivers in the second half of last year and are pleased to see these trends continue. Dedicated EBT as a percent of operating revenue of 9% was in line with the segment's high single digit target.

During the quarter, contract sales activity slowed in DTS consistent with a softer freight environment. Customers and prospects have been taking longer to make decisions and our pipeline has declined. As far as industry sectors go, the industrial sector appears to be on relatively stronger footing with negative trends more pronounced in sectors such as retail. Given this environment, we expect dedicated contract sales activity to moderate for the remainder of the year and now expect dedicated revenue growth to be below our high single digit target range. Dedicated remains on track, however, to achieve its high single digit target for segment pre-tax earnings.

Turning to slide 12. First quarter lease capital spending of \$579 million was up from planned increases in lease vehicle replacement activity due to expiring lease contracts. For the first quarter, rental capital spending of \$177 million was generally in line with prior year. But we continue to expect rental capital spending to be down for the full year, reflecting a normalizing



rental environment. We're continuing to shift our vehicle mix and rental toward trucks where we see stronger demand trends that have historically been more resilient than those for tractors.

By year end 2023, we expect that trucks will be approximately 58% of the North America rental fleet, up from 49% in 2018. Our full year 2023 capital expenditure forecast is unchanged. Our 2023 forecast for lease capital is \$2.4 billion, reflect higher lease replacement and growth capital versus prior year. We now expect the ending lease fleet to be up 5,000 to 6,000 vehicles, up from the prior forecast of 3,000 to 4,000 vehicles.

This additional lease fleet growth is coming from redeployed rental vehicles, so we will not require additional capital expenditures this year. In rental, our average fleet is anticipated to be down slightly from 2022. Our ending rental fleet is now expected to be down approximately 8% or 3,500 vehicles more than initially planned, reflecting higher rental redeployment activity.

Our full Year 2023 forecast for gross capital expenditures remains at \$3 billion. We continue to expect proceeds from the sale of used vehicles of approximately \$800 million in 2023. The low prior year, which included \$400 million of proceeds related to the exit. Our full year 2023 net capital expenditures are expected to be \$2.2 billion.

Turning to slide 13. Our forecast for operating cash flow and free cash flow is unchanged. As shown, the trajectory of our cash flow continues to improve over time, reflecting growth in our contractual supply chain, dedicated and leased businesses, which comprise approximately 85% of Ryder's operating revenue. Our free cash flow profile has changed significantly since the implementation of our balanced growth strategy.

From 2020 forward, lower targeted lease growth under the balanced growth strategy 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.

Summary on the right side of the slide illustrates the strong free cash flow generated by the business prior to investing in fleet growth. In 2023, we expect to generate \$200 million in free cash flow, and prior to investing in growth capital, this number is expected to be approximately \$600 million. Our capital allocation priorities continue to support our strategy to drive long-term profitable growth. Our top priority is to continue to invest in organic growth. We'll continue to pursue targeted acquisitions, which have been a key contributor to accelerate growth in SCS. Our acquisitions have helped transform our supply chain business, both in terms of expanding capabilities as well as rebalancing our vertical mix.

Our balance sheet with leverage of 211% at March 31st provides ample capacity to fund organic growth, targeted acquisitions, as well as return capital to shareholders through share repurchases and dividends. It's capacity supported by solid investment credit ratings, inclusive of our recent upgrade from S&P to BBB plus.

Finally, we have limited exposure from rising interest rates as our lease pricing model incorporates forecasted medium term borrowing rates. Additionally, the aggregate repricing life for our lease contracts is matched with the aggregate repricing life towards that portfolio. I'll turn the call back over to Robert to discuss our enhanced asset management playbook and the outlook.

Robert Sanchez: Thanks, John. Slide 14 provides key highlights from our Enhanced Asset Management Playbook, which is focused on optimizing returns over the cycle. Our contractual lease dedicated and supply chain businesses have proven to be more stable over the cycle than our transactional used vehicle sales and rental businesses. Key actions to mitigate the impact from weakening used vehicle sales and rental demand include our ability to redeploy underutilized rental vehicles to fulfill lease dedicated and supply chain contracts.

The solid growth we're seeing in dedicated and supply chain transportation services, along with long OEM lead times, is providing us with even more redeployment opportunities than prior cycles. In used vehicle sales, we're leveraging our expanded retail sales network capacity and investments in our digital sales transformation. Since 2019, we've increased our retail sales capacity by about 50% by adding physical locations and increasing our inside sales team focused on capturing the digital sales opportunity.

Increasing retail sales volumes benefits results as wholesale proceeds have historically been at a 30% discount to retail proceeds. We're continuing to maintain low levels of used vehicle inventory relative to historical levels as discussed earlier. We're also extending lease contracts for vehicles with remaining life that - which defer the need for replacement capital and appeals to lease customers that may prefer the lower cost, shorter-term commitment of a lease extension compared to leasing new equipment. Although earnings will be impacted by the freight cycle, executing on our enhanced asset management playbook positions Ryder for higher earnings in each phase of the cycle.

Turning to page 15, we're raising the low end of our full year 2023 comparable EPS forecast from 1105 to 1205 to 1130 to 1205 versus a 1637 in the prior year. The increase reflects modestly higher than expected used vehicle sales trends. Please note that our second quarter and full year 2023 GAAP EPS forecast includes approximately \$3.75 for a cumulative currency translation charge related to the exit of our FMS UK business. We're also providing a second quarter comparable EPS forecast of 280 to 305 versus a prior year of 443.

Our 2023 ROE forecast is unchanged at 16% to 18%, in line with our long-term high teens target. We continue to expect strong but reduced earnings in 2023 as weak freight conditions impact used vehicle sales and rental. We expect our contractual lease, dedicated and supply chain businesses to continue to show improvement based on our growth and return initiatives.

Turning to page 16, we believe Ryder is well positioned to increase shareholder value. We see significant opportunity for profitable growth supported by secular trends, our operational expertise and ongoing momentum from our multiyear initiatives. We've made structural changes to our business model and continue to demonstrate strong execution on our balanced growth strategy, which we believe positions us to achieve our long-term targets, increased business model resiliency and outperform prior cycles.

We remain committed to investing in products, capabilities and technologies 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'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, it is star, one if you would like to ask a question. We'll pause just for a moment to allow everyone an opportunity to signal for questions. And we'll go ahead and take our first question from Scott Group with Wolfe Research. Please go ahead.

Scott Group: Hey, thanks. Good morning. Just - wanted to just clarify one thing real quick. The \$0.40 to \$0.45 from the bankruptcy, that's - you kept that headwind in the first quarter earnings and it's reflected in the full year guide. You're not excluding that, right?

Robert Sanchez: That's correct. Let me clarify that. So the asset impairment, which was \$0.44, was not included in our Q1 guidance. So it was included in our full year, but certainly wasn't - it wasn't included in our - we had contemplated in our full year wasn't included in our in our Q1 guidance.

So if you exclude that that \$0.44, we would have reported more like a 0.325[?]. So well above - the core business came in well above the guidance that we gave.

Scott Group: But you were including it in the full year guidance. So you knew this bankruptcy was happening and you knew it was going to be in your guide?

Robert Sanchez: We knew it was a possibility. So when we came up with a full year guidance over the year, we expect at some point of the year something like that could happen. So it was included in the full year. It was certainly not expected in the first quarter.

Scott Group: I didn't realize you guys were bankruptcy experts. Okay. And just separately, just the rental trends, can you just talk about utilization through the quarter, how it trended throughout the quarter and sort of what you're expecting for Q2 on rental?

Robert Sanchez: Sure. Let me hand that over to Tom to give you the information on rental.

Tom Havens: Yeah. Well, you saw us come off some of our highest peaks in utilization. And when we came into Q1 sequentially, we saw a fairly big drop from the high season through Christmas when we finished the quarter here in the in the mid-70s in terms of utilization, which we would say is a kind of very normal drop in utilization from Q4 to Q1, and kind of right in line with our expectations. As we look to Q2, we're expecting utilization to be in that mid-70s to upper 70s utilization. John kind of mentioned it as well, but we are expecting to de-fleet. You saw some of that in in Q1. And as we go throughout the year, we do expect that lease fleet to come down and we'll do that with a mix of out-servicing of end-of-life units and then redeploying into our lease fleet as well.

Scott Group: Okay. Thank you, guys. Helpful. I appreciate it.

Robert Sanchez: Thanks, Scott.

Operator: If you find that your question has been answered, you may remove yourself from the queue by pressing the star key, followed by the digit two. And we'll go ahead and move on to our next question from Jordan Alliger with Goldman Sachs. Please go ahead.

Jordan Alliger: Hi. Just a question. I know there is the impairment that impacted supply chain margins. You sort of add that back and back to what - about in line. And I guess I'm thinking I mean, presumably we should look at it with the back in there. And then how do we think about - I know there's a lot of top line opportunities nearshoring, but how do we think about supply chain margin development? I know you've done a lot with cost recovery, etcetera. Sort of when can we think about that moving sort of north from the adjusted levels we saw in the first quarter? Thanks.

Robert Sanchez: Yeah, that's a good question, Jordan. I mean, we're - as we've stated, our target for supply chain is high single digit earnings before tax as a percent of operating revenue. So we remain committed to that. As we get into the rest of the year, our expectation is to see supply chain move really towards that goal and into that goal through the balance of the year. So we feel good about that. The softness that we have seen over the last quarter is really more around our Ryder Last Mile, so the delivery of the big and bulky has slowed down, as you probably heard other others mention that. And some of the e-commerce, especially as we're trying to grow that business, we're adding facilities and then working to get those filled up. So the target for the balance of the year, though, is to get back into that high single digit EBT as a percent of operating revenue.

Jordan Alliger: Okay. And I know you mentioned the - maybe I missed this on your presentation. I know that you said the pipeline for Dedicated or DTS might be coming down, but how's the pipeline on supply chain as the activity is as buoyant as maybe it was the last couple of years, or is that sort of faded as well? Near term at least.

Robert Sanchez: Yeah. Let me hand that over to Steve Sensing to give you a little color on that.

Steve Sensing: Yeah. Thanks, Robert. Jordan, yeah, I'll hit on a couple of points here. Supply chain pipeline is actually up 25% year over year, so still seeing very strong demand from a sales perspective. I will tell you, it is slowing a little bit in automotive, as the truckload pricing is coming down, but every other vertical is very strong. And then on the dedicated comment, we did pivot our ever better campaign this year to focus on our transportation solutions that was launched in Q1. So, it'll take some time for that to kind of flow through into the pipeline, but we just kind of redirected our campaign.

Jordan Alliger: Great. Thank you.

Robert Sanchez: Thanks, Jordan.

Operator: And we'll go ahead and take our next question from Jeff Kauffman with Vertical Research Partners. Please go ahead.

Jeff Kauffman: Thank you very much. I'm going to sneak a question and a half in here if I can. The first one is just clarifying. I just want to make sure I understand what's going on below the line here. You're very clear about the Bed Bath & Beyond bankruptcy. But I want to ask you more about the \$31 million add back that's kind of in other items affecting comparability on the FMS UK exit. If I was to take a similar approach that this is an oddity event, would that have negatively affected the reported earnings before taxes just in the FMS division? And then you're adding that back in the comparability below the line?

John Diez: So, Jeff, let me give some clarity here. The items below the line are tied to the exit of our UK operations and your credits as you rightfully called out. Those we expect will really not

continue into the future. So we've taken them out of our results from a comparable perspective. So those are one-time events related to the UK and not tied to ongoing operations.

Jeff Kauffman: All right. But to understand where that goes, so that would have negatively affected the reported FMS EBT and is being added back below the line. And the next quarter, we've got kind of a different FMS UK related item and that's the \$375 million negative impact on the release that you've identified. Is that the right way to think about that?

John Diez: It's not. So let me give you clarity. So all related UK activity, these one-time items last year, we reported all the gains from the exit of that business, both the property gains as well as the vehicle gains. We reported that outside of the segment profitability for FMS. Those were gains in 2022. This is an additional gain in 2023 related to the UK business. There's some claims recoveries listed in there, as well some minor gains from vehicle activity that continues in 2023. Those numbers for the UK have been excluded from both 2022 and 2023 results from the segment performance.

In addition to that, we do expect in Q2 to take, through earnings, the equity impact from cumulative translation adjustments from the UK. That will have no impact on equity. It's a non-cash item and will be excluded from the segment results as well. So what you have in the segment results for FMS is the ongoing performance of the business. And the profitability there is reflective of the North America business that will continue to perform.

Jeff Kauffman: All right. That's very helpful clarity. And then just the follow up to that, so the half question to that. If I step back at 10,000 feet and just listen to everything you're saying, it sounds like the normalization occurring in FMS is not so much out of line with what you're looking for. The only real change in the outlook is to the negative, maybe dedicated grows a little bit slower on the revenue line and to the positive. You're seeing better vehicle sales, so that's raising the



lower end of the guidance range. But net-net, what you're seeing is largely in line with what you were expecting. Am I wrong in that or am I missing something? Is that a fair assessment on it?

Robert Sanchez: You're absolutely right on it. This was - yeah. This was kind of - this was an in-line quarter in terms of our expectation. Where we saw a little bit better than expected was around the trends around used truck sales, not tractors, but the truck side is doing a little better. That's why we raised the bottom end. Dedicated came in a little bit better also. But as we mentioned, we're expecting a little bit more softness on the sales side towards the second half of the year. So yeah. Generally in line with what we had expected 60 days ago, other than used vehicle sales came in a little bit better.

Jeff Kauffman: Okay, thanks. That's all my questions. Congratulations.

Robert Sanchez: Okay. Thanks, Jeff.

Operator: Our next question comes from Allison Poliniak with Wells Fargo. Please go ahead.

Allison Poliniak: Hi. Good morning. I just want to go back to supply chain services. I think you mentioned 80% of that customer base is investment grade, but then their 20%, you didn't really clarify. Any color along that? And I know Bed Bath & Beyond is a unique situation, but any incremental controls that you're putting in place when you're onboarding some of these smaller accounts? Thanks.

Robert Sanchez: Yeah. I think just to clarify, we - what we said was that 80% of our single customer operations, that's where it's kind of an operation dedicated to one customer, not the multi-client is that the risk, I would say, spread across many customers. So those were - it's a single customer, yes. 80% of those operations are - the revenue from those operations are with investment grade companies.

It's important to also say that the majority of those have limited specialized equipment in them. So the limited specialized impact by investment grade. And the majority of those are - they're also redeployable to other operations more easily. So this was a bit of a unique situation in the credit risk of the customer that we took on and the specialized equipment nature of the facilities.

Now, why did we do it? I think it's key - a key point there was this was a high velocity retail operation with automation that we felt was a good opportunity to really learn our analysis of their risk at the time that we signed it. They were in a very different credit profile than they ended up today. But we made the investment at that time, assuming we were going to be able to run it. And unfortunately, it hasn't worked out that way. So this equipment will all be redeployed. What we've taken is the write-down that's required in order to get that equipment moved to another location and redeployed.

Allison Poliniak: And then just any incremental controls that you're putting as you're onboarding new customers at this point, just given where we are?

Robert Sanchez: Yeah. It's really around the investments that we make in any specialized equipment. Clearly, the lesson here is really not to do that with any customer that is not investment grade, is generally the approach we're going to take. It's really the approach we've taken also in the future. This was a bit of an anomaly.

Allison Poliniak: Great. Thanks for the color.

Robert Sanchez: Okay. Thank you.

Operator: Our next question will come from Brian Ossenbeck with JP Morgan. Please go ahead.

Brian Ossenbeck: Hey, good morning. I just wanted to come back to the DTS pipeline real quick. It sounded like perhaps there was maybe a change in how you were going to market or what you were targeting that might have caused some of the slowdowns. Maybe you can just clarify that a bit for me. What was really the underlying driver or people actually putting projects off on top of some of the changes? What were the biggest impacts of that deceleration?

Robert Sanchez: Yeah. Brian, I think it's pretty simple. It's basically as a result, as a spot rate for trucking comes down. You've got - we've got some prospects who - or even customers who are saying, you know what, given how low the spot rates are, I'm going to take a chance and go with truckload and spot rates as opposed to going with the dedicated operation. That's basically - it's the dedicated business that's on the margin, if you will, that could go either truckload or be dedicated that you now have fewer opportunities on those until spot rates recover.

So it's not unexpected. This is what happens as we go through the freight cycle. So I'd expect that to continue to be soft maybe for the next couple of quarters. And then as spot rates begin to recover, we'll start to see demand for dedicated and the pipeline pick back up again.

Brian Ossenbeck: Understood. So the, I guess, deceleration in some of the back half of the year perhaps related to this, but was that considered in the guidance beforehand or is that sort of an incremental update that you've put into the full number today?

Robert Sanchez: Yeah, no. That's right. It was it was really - it was considered in - we considered some of it in the initial forecast. There's some - a slight additional headwind, but not a whole lot because most of those sales don't really impact until the next year. So there's still a lot of innings to be played here for the balance of the year. And there's a good chance also that that sales could pick up at the back half of the year, spot rates start to come back up. So.

Brian Ossenbeck: Okay. Thank you very much.

Robert Sanchez: Thank you, Brian.

Operator: We'll take our next question from Bert Subin with Stifel. Please go ahead.

Bert Subin: Hey, good morning. Robert, you talked through the nearshoring topic. Can you just talk about how you're assessing the US-Mexico business and your guidance? And do you think that can be a meaningful earnings contributor either in 2023 or 2024, or do you think it's still pretty early innings and thinking about the nearshoring effect?

Robert Sanchez: Yeah. Look, I think, like I mentioned on the - in the script, we've been in Mexico for 30 years. We have very strong operations in Mexico. What we've seen is a pickup in the pipeline and the supply chain pipeline of more nearshoring in Mexico related type operations. As more - especially in the automotive and industrials, more companies are doing - are looking to increase nearshoring. So we're really excited about the opportunity of seeing that business continue to grow. It's currently, that business is about \$275 million of revenue within supply chain and a profitable business for us, I would say better than average profitability coming out of that operation. So we see it as a really good opportunity for taking advantage of this secular trend and over time, becoming a bigger part of supply chain.

Bert Subin: Thank you, Robert.

Robert Sanchez: All right, Bert. Thanks.

Operator: Our next question comes from Justin Long with Stephens. Please go ahead.

Justin Long: Thanks. I had a bigger picture question, but before I get to that, I just had a quick clarification as well. Going back to the fourth quarter, I think there was a \$20 million impairment

in SCS. Was that related to the same bankruptcy impairment that you took in the first quarter or is that a separate issue?

Robert Sanchez: Yeah. It was the same customer, Justin. It was two - we were running two warehouses for this customer, for Bed Bath and Beyond. And the one in California was the impairment that we took in the fourth quarter. And that was because the customer had canceled us in that location. This one is for the one in Pennsylvania, which was the remaining facility that we were running for them. And now, based on their bankruptcy and likely liquidation, we've taken the right down to redeploy that equipment.

Justin Long: Got it. That's helpful. And then circling back to my bigger picture question, we're hearing a more cautious tone from a lot of the other transportation companies as we think about the trends in the first quarter and quarter to date here in April. But your 2023 EPS guidance actually came up a little bit at the low end of the range. So I'm curious, Robert, just from a high level, can you explain why a weaker than expected freight market year to date isn't flowing through to your financial performance, and particularly in the used market where expectations moved a little bit higher?

Robert Sanchez: Yeah, that's a great question. I think it really has to do with where we started. I think we took a more cautious view of the year at the beginning than maybe others did. We expected used truck pricings to be down the entire year, where some were expecting a recovery in the second half and in the fourth quarter when I said used vehicle sales and rentals. So I think it was just the starting point. We haven't seen it. The results have not been below our expectations in the first quarter, whereas I think they were below the expectations that were set by others. So I think that's the difference, is just our starting point on our expectations at the beginning of the year we're lower than maybe what others were.

Justin Long: Got it. That makes sense. Thanks for the time.

Robert Sanchez: Thanks, Justin.

Operator: At this time, I would like to turn the call back over to Mr. Robert Sanchez for closing remarks.

Robert Sanchez: Okay. Well, thank you all. Thanks for being on the call, your interest in the company, and look forward to seeing you soon. Have a safe day.

Operator: With that, that does conclude today's call. Thank you for your participation. You may now disconnect.