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RYDER SYSTEM INC  
Form 10-Q  
October 25, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017  
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
Commission File Number: 1-4364

RYDER SYSTEM, INC.  
(Exact name of registrant as specified in its charter)

Florida 59-0739250  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

11690 N.W. 105th Street  
Miami, Florida 33178 (305) 500-3726  
(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) ☐  
YES ☐ NO ☐

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The number of shares of Ryder System, Inc. Common Stock (\$0.50 par value per share) outstanding at September 30, 2017 was 52,947,715.

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FORM 10-Q QUARTERLY REPORT  
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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

RYDER SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
(unaudited)

|                                                         | Three months ended<br>September 30,      |           | Nine months ended<br>September 30, |           |
|---------------------------------------------------------|------------------------------------------|-----------|------------------------------------|-----------|
|                                                         | 2017                                     | 2016      | 2017                               | 2016      |
|                                                         | (In thousands, except per share amounts) |           |                                    |           |
| Lease and rental revenues                               | \$823,197                                | 803,006   | \$2,387,801                        | 2,369,147 |
| Services revenue                                        | 896,245                                  | 801,004   | 2,619,139                          | 2,345,922 |
| Fuel services revenue                                   | 129,087                                  | 120,408   | 382,966                            | 342,765   |
| Total revenues                                          | 1,848,529                                | 1,724,418 | 5,389,906                          | 5,057,834 |
| Cost of lease and rental                                | 588,626                                  | 557,901   | 1,745,777                          | 1,665,693 |
| Cost of services                                        | 761,470                                  | 658,793   | 2,210,314                          | 1,936,636 |
| Cost of fuel services                                   | 124,562                                  | 116,904   | 372,016                            | 331,283   |
| Other operating expenses                                | 28,445                                   | 27,997    | 87,122                             | 85,944    |
| Selling, general and administrative expenses            | 216,653                                  | 191,337   | 620,041                            | 602,768   |
| Non-operating pension costs                             | 6,958                                    | 7,468     | 20,875                             | 29,698    |
| Used vehicle sales, net                                 | (2,727)                                  | (1,873)   | 11,815                             | (33,002)  |
| Interest expense                                        | 34,854                                   | 37,440    | 104,591                            | 112,597   |
| Miscellaneous income, net                               | (4,655)                                  | (3,247)   | (17,636)                           | (10,968)  |
|                                                         | 1,754,186                                | 1,592,720 | 5,154,915                          | 4,720,649 |
| Earnings from continuing operations before income taxes | 94,343                                   | 131,698   | 234,991                            | 337,185   |
| Provision for income taxes                              | 35,430                                   | 46,560    | 86,456                             | 121,820   |
| Earnings from continuing operations                     | 58,913                                   | 85,138    | 148,535                            | 215,365   |
| Loss from discontinued operations, net of tax           | (290)                                    | (386)     | (947)                              | (1,069)   |
| Net earnings                                            | \$58,623                                 | 84,752    | \$147,588                          | 214,296   |
| Earnings (loss) per common share — Basic                |                                          |           |                                    |           |
| Continuing operations                                   | \$1.12                                   | 1.60      | \$2.81                             | 4.05      |
| Discontinued operations                                 | (0.01)                                   | (0.01)    | (0.02)                             | (0.02)    |
| Net earnings                                            | \$1.11                                   | 1.60      | \$2.79                             | 4.03      |
| Earnings (loss) per common share — Diluted              |                                          |           |                                    |           |
| Continuing operations                                   | \$1.11                                   | 1.59      | \$2.79                             | 4.02      |
| Discontinued operations                                 | (0.01)                                   | (0.01)    | (0.02)                             | (0.02)    |
| Net earnings                                            | \$1.11                                   | 1.59      | \$2.77                             | 4.00      |
| Cash dividends declared per common share                | \$0.46                                   | 0.44      | \$1.34                             | 1.26      |

See accompanying notes to Consolidated Condensed Financial Statements.

Note: EPS amounts may not be additive due to rounding.



RYDER SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

|                                                                                   | Three months<br>ended September<br>30,<br>2017      2016 |          | Nine months ended<br>September 30,<br>2017      2016 |           |
|-----------------------------------------------------------------------------------|----------------------------------------------------------|----------|------------------------------------------------------|-----------|
|                                                                                   | (In thousands)                                           |          |                                                      |           |
| Net earnings                                                                      | \$58,623                                                 | 84,752   | \$147,588                                            | 214,296   |
| Other comprehensive income (loss):                                                |                                                          |          |                                                      |           |
| Changes in currency translation adjustment and other                              | 27,648                                                   | (19,296) | 70,991                                               | (37,874 ) |
| Amortization of pension and postretirement items                                  | 7,960                                                    | 7,171    | 23,741                                               | 22,040    |
| Income tax expense related to amortization of pension and postretirement items    | (2,812 )                                                 | (2,667 ) | (8,324 )                                             | (7,854 )  |
| Amortization of pension and postretirement items, net of taxes                    | 5,148                                                    | 4,504    | 15,417                                               | 14,186    |
| Change in net actuarial loss and prior service cost                               | 870                                                      | —        | 890                                                  | (17,367 ) |
| Income tax benefit related to change in net actuarial loss and prior service cost | (260 )                                                   | —        | (80 )                                                | 6,345     |
| Change in net actuarial loss and prior service cost, net of taxes                 | 610                                                      | —        | 810                                                  | (11,022 ) |
| Other comprehensive income (loss), net of taxes                                   | 33,406                                                   | (14,792) | 87,218                                               | (34,710 ) |
| Comprehensive income                                                              | \$92,029                                                 | 69,960   | \$234,806                                            | 179,586   |
| See accompanying notes to Consolidated Condensed Financial Statements.            |                                                          |          |                                                      |           |

RYDER SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(unaudited)

|                                                                                                                                                  | September 30,<br>2017                           | December 31,<br>2016 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------|
|                                                                                                                                                  | (Dollars in thousands, except per share amount) |                      |
| Assets:                                                                                                                                          |                                                 |                      |
| Current assets:                                                                                                                                  |                                                 |                      |
| Cash and cash equivalents                                                                                                                        | \$ 65,256                                       | 58,801               |
| Receivables, net of allowance of \$13,192 and \$14,915, respectively                                                                             | 981,702                                         | 831,947              |
| Inventories                                                                                                                                      | 71,328                                          | 69,529               |
| Prepaid expenses and other current assets                                                                                                        | 134,294                                         | 141,280              |
| Total current assets                                                                                                                             | 1,252,580                                       | 1,101,557            |
| Revenue earning equipment, net                                                                                                                   | 8,249,317                                       | 8,147,722            |
| Operating property and equipment, net of accumulated depreciation of \$1,187,188 and \$1,128,040, respectively                                   | 778,879                                         | 745,870              |
| Goodwill                                                                                                                                         | 395,120                                         | 386,772              |
| Intangible assets, net of accumulated amortization of \$55,934 and \$51,578, respectively                                                        | 44,381                                          | 48,249               |
| Direct financing leases and other assets                                                                                                         | 538,697                                         | 472,284              |
| Total assets                                                                                                                                     | \$ 11,258,974                                   | 10,902,454           |
| Liabilities and shareholders' equity:                                                                                                            |                                                 |                      |
| Current liabilities:                                                                                                                             |                                                 |                      |
| Short-term debt and current portion of long-term debt                                                                                            | \$ 143,942                                      | 791,410              |
| Accounts payable                                                                                                                                 | 557,216                                         | 445,470              |
| Accrued expenses and other current liabilities                                                                                                   | 529,171                                         | 507,189              |
| Total current liabilities                                                                                                                        | 1,230,329                                       | 1,744,069            |
| Long-term debt                                                                                                                                   | 5,205,284                                       | 4,599,864            |
| Other non-current liabilities                                                                                                                    | 872,071                                         | 817,565              |
| Deferred income taxes                                                                                                                            | 1,776,226                                       | 1,688,681            |
| Total liabilities                                                                                                                                | 9,083,910                                       | 8,850,179            |
| Shareholders' equity:                                                                                                                            |                                                 |                      |
| Preferred stock, no par value per share — authorized, 3,800,917; none outstanding, September 30, 2017 or December 31, 2016                       | —                                               | —                    |
| Common stock, \$0.50 par value per share — authorized, 400,000,000; outstanding, September 30, 2017 — 52,947,715; December 31, 2016 — 53,463,118 | 26,474                                          | 26,732               |
| Additional paid-in capital                                                                                                                       | 1,039,598                                       | 1,032,549            |
| Retained earnings                                                                                                                                | 1,855,806                                       | 1,827,026            |
| Accumulated other comprehensive loss                                                                                                             | (746,814)                                       | (834,032)            |
| Total shareholders' equity                                                                                                                       | 2,175,064                                       | 2,052,275            |
| Total liabilities and shareholders' equity                                                                                                       | \$ 11,258,974                                   | 10,902,454           |
| See accompanying notes to Consolidated Condensed Financial Statements.                                                                           |                                                 |                      |

RYDER SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(unaudited)

|                                                                           | Nine months ended<br>September 30,<br>2017      2016<br>(In thousands) |              |
|---------------------------------------------------------------------------|------------------------------------------------------------------------|--------------|
| Cash flows from operating activities from continuing operations:          |                                                                        |              |
| Net earnings                                                              | \$ 147,588                                                             | 214,296      |
| Less: Loss from discontinued operations, net of tax                       | (947 )                                                                 | (1,069 )     |
| Earnings from continuing operations                                       | 148,535                                                                | 215,365      |
| Depreciation expense                                                      | 932,772                                                                | 878,173      |
| Used vehicle sales, net                                                   | 11,815                                                                 | (33,002 )    |
| Amortization expense and other non-cash charges, net                      | 27,933                                                                 | 20,196       |
| Non-operating pension costs and share-based compensation expense          | 35,509                                                                 | 43,568       |
| Deferred income tax expense                                               | 75,279                                                                 | 109,191      |
| Changes in operating assets and liabilities:                              |                                                                        |              |
| Receivables                                                               | (145,090 )                                                             | (69,169 )    |
| Inventories                                                               | (985 )                                                                 | (3,524 )     |
| Prepaid expenses and other assets                                         | 255                                                                    | (24,241 )    |
| Accounts payable                                                          | 40,734                                                                 | 68,599       |
| Accrued expenses and other non-current liabilities                        | 39,434                                                                 | (20,094 )    |
| Net cash provided by operating activities from continuing operations      | 1,166,191                                                              | 1,185,062    |
| Cash flows from financing activities:                                     |                                                                        |              |
| Net change in commercial paper borrowings and revolving credit facilities | 2,153                                                                  | 73,597       |
| Debt proceeds                                                             | 873,302                                                                | 298,254      |
| Debt repaid                                                               | (938,160 )                                                             | (340,707 )   |
| Dividends on common stock                                                 | (71,564 )                                                              | (67,651 )    |
| Common stock issued                                                       | 10,387                                                                 | 9,626        |
| Common stock repurchased                                                  | (65,856 )                                                              | (25,658 )    |
| Debt issuance costs                                                       | (1,517 )                                                               | (3,015 )     |
| Net cash used in financing activities                                     | (191,255 )                                                             | (55,554 )    |
| Cash flows from investing activities:                                     |                                                                        |              |
| Purchases of property and revenue earning equipment                       | (1,312,845 )                                                           | (1,511,359 ) |
| Sales of revenue earning equipment                                        | 289,432                                                                | 331,720      |
| Sales of operating property and equipment                                 | 12,541                                                                 | 6,623        |
| Acquisitions                                                              | (7,240 )                                                               | —            |
| Collections on direct finance leases and other items                      | 54,227                                                                 | 60,229       |
| Changes in restricted cash                                                | 1,694                                                                  | 4,203        |
| Net cash used in investing activities                                     | (962,191 )                                                             | (1,108,584 ) |
| Effect of exchange rate changes on cash                                   | (5,226 )                                                               | (5,567 )     |
| Increase in cash and cash equivalents from continuing operations          | 7,519                                                                  | 15,357       |
| Decrease in cash and cash equivalents from discontinued operations        | (1,064 )                                                               | (1,308 )     |
| Increase in cash and cash equivalents                                     | 6,455                                                                  | 14,049       |

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|                                                                        |          |        |
|------------------------------------------------------------------------|----------|--------|
| Cash and cash equivalents at January 1                                 | 58,801   | 60,945 |
| Cash and cash equivalents at September 30                              | \$65,256 | 74,994 |
| See accompanying notes to Consolidated Condensed Financial Statements. |          |        |

RYDER SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(unaudited)

1. GENERAL

Interim Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Ryder System, Inc. (Ryder) and all entities in which Ryder has a controlling voting interest (subsidiaries) and variable interest entities (VIEs) required to be consolidated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with the accounting policies described in our 2016 Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and notes thereto. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included and the disclosures herein are adequate. The operating results for interim periods are unaudited and are not necessarily indicative of the results that can be expected for a full year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Derivatives and Hedging

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, Derivatives and Hedging (Topic 815), which simplifies and clarifies the accounting and disclosure for hedging activities by more closely aligning the results of cash flow and fair value hedge accounting with the risk management activities of an entity. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. We do not expect this standard to have an impact on our consolidated financial position, results of operations or cash flows.

Share-Based Compensation

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. We will adopt the standard as of January 1, 2018, on a prospective basis. We do not expect this standard to have an impact on our consolidated financial position, results of operations or cash flows.

Employee Benefits Plans

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The standard is effective January 1, 2018, with early adoption as of January 1, 2017 permitted. We adopted the standard during the first quarter of 2017 and recorded the other components of net benefit cost within "Non-operating pension costs" in the Consolidated Condensed Statements of Earnings for both the current and prior

year periods.

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RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350), which requires an entity to perform a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The standard is effective January 1, 2020, with early adoption as of January 1, 2017 permitted. We adopted the standard during the first quarter of 2017 and it did not have an impact on our consolidated financial position, results of operations or cash flows.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued additional guidance related to the statement of cash flows, which requires companies to explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. The standard is effective January 1, 2018, with early adoption permitted. We will adopt the standard as of January 1, 2018, on a retrospective basis. We do not expect this standard to have a material impact on the presentation of our consolidated cash flows.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard requires lessees to classify leases as either finance or operating leases. This classification will determine whether the related expense will be recognized based on asset amortization and interest on the obligation or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. We do not expect the lessee requirements to have a material impact on our consolidated financial position, results of operations or cash flows.

The new standard continues to require lessors to separate the lease component from the non-lease component; however, it provides clarification on the scope of non-lease components (e.g., maintenance services). The new standard also provides more guidance on how to identify and separate the components. The lease component will be accounted for using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The non-lease component will be accounted for in accordance with the revenue recognition guidance in ASU No. 2014-09. The adoption of the new lease standard will primarily impact our ChoiceLease product line, which includes a vehicle lease as well as maintenance and other services related to the vehicle. We will generally continue to recognize revenue for the lease portion of the product line on a straight-line basis. Revenue from maintenance services will be recognized at the time the maintenance services are performed, which will generally require the deferral of some portion of the customer's lease payments when received, as maintenance services are not performed evenly over the life of a ChoiceLease contract. We will adopt the standard effective January 1, 2019, using the modified retrospective transition method. Upon adoption, we will record a cumulative-effect adjustment to recognize deferred revenue related to the maintenance services on the opening

balance sheet for 2017 and restate all prior periods presented (2017 and 2018). We expect the cumulative-effect adjustment will have a significant impact on our consolidated financial position. We continue to evaluate the impact of adoption of this standard on our results of operations. We do not expect the adoption of this standard to have an impact on our cash flows.

#### Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which together with related, subsequently issued guidance, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In June 2017, the FASB provided further clarification on the interaction of the transition provisions of the new revenue standard and the new lease standard. We will adopt the revenue standard on January 1, 2018, using the full retrospective transition method.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

This standard will primarily impact lease revenue from our ChoiceLease product line, specifically the non-lease component (primarily maintenance services). However, based on the FASB's clarification guidance issued in June 2017, on the interaction of the transition provisions of the new revenue standard and the new lease standard, we will continue to apply the existing lease accounting guidance to our lease revenue upon adoption of the revenue standard on January 1, 2018 and will adopt the new revenue standard for the maintenance and other services components of our ChoiceLease product line effective January 1, 2019.

With respect to other revenue sources, we continue to assess the impact of the following: (1) timing of recognition of variable consideration; (2) principal versus agent considerations; and (3) accounting for costs to obtain and fulfill contracts. We do not expect the adoption of this standard as it relates to other revenue sources to have a material impact on our consolidated financial position, results of operations or cash flows.

## 3. ACQUISITIONS

On September 29, 2017, we completed the acquisition of Dallas Service Center, Inc., an independent truck repair facility, for a purchase price of approximately \$8.0 million, net of cash acquired, which includes \$0.8 million in contingent consideration to be paid to the seller provided certain conditions are met.

## 4. REVENUE EARNING EQUIPMENT

|                   | September 30, 2017 |                          |                               | December 31, 2016 |                          |                               |
|-------------------|--------------------|--------------------------|-------------------------------|-------------------|--------------------------|-------------------------------|
|                   | Cost               | Accumulated Depreciation | Net Book Value <sup>(1)</sup> | Cost              | Accumulated Depreciation | Net Book Value <sup>(1)</sup> |
| (In thousands)    |                    |                          |                               |                   |                          |                               |
| Held for use:     |                    |                          |                               |                   |                          |                               |
| ChoiceLease       | \$9,799,028        | (3,284,267 )             | 6,514,761                     | \$9,486,977       | (3,031,937 )             | 6,455,040                     |
| Commercial rental | 2,599,043          | (973,126 )               | 1,625,917                     | 2,499,010         | (935,346 )               | 1,563,664                     |
| Held for sale     | 417,771            | (309,132 )               | 108,639                       | 494,355           | (365,337 )               | 129,018                       |
| Total             | \$12,815,842       | (4,566,525 )             | 8,249,317                     | \$12,480,342      | (4,332,620 )             | 8,147,722                     |

Revenue earning equipment, net includes vehicles acquired under capital leases of \$29 million, less accumulated (1) depreciation of \$14 million, at September 30, 2017, and \$43 million, less accumulated depreciation of \$22 million, at December 31, 2016.

We lease revenue earning equipment to customers for periods typically ranging from three to seven years for trucks and tractors and up to ten years for trailers. The majority of our leases are classified as operating leases. However, some of our revenue earning equipment leases are classified as direct financing leases and, to a lesser extent, sales-type leases. As of September 30, 2017 and December 31, 2016, the net investment in direct financing and sales-type leases was \$439 million and \$409 million, respectively. Our direct financing lease customers operate in a wide variety of industries, and we have no significant customer concentrations in any one industry. We assess credit risk for all of our customers including those who lease equipment under direct financing leases prior to signing a

ChoiceLease contract. For those customers who are designated as high risk, we typically require security deposits to be paid in advance in order to mitigate our credit risk. Additionally, our receivables are collateralized by the vehicles, which further mitigates our credit risk.

As of September 30, 2017 and December 31, 2016, the amount of direct financing lease receivables past due was not significant, and there were no impaired receivables. Accordingly, we do not believe there is a material risk of default with respect to the direct financing lease receivables.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. Losses on vehicles held for sale for which carrying values exceeded fair value are recognized at the time they arrive at our used truck sales centers and are presented within “Used vehicle sales, net” in the Consolidated Condensed Statements of Earnings. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (trucks, tractors and trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. For a certain population of our revenue earning equipment held for sale, fair value was determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition. These vehicles held for sale were classified within Level 3 of the fair value hierarchy.

The following table presents our assets held for sale that are measured at fair value on a nonrecurring basis and considered a Level 3 fair value measurement:

|                                            |           | Total Losses <sup>(2)</sup> |          |                   |           |        |
|--------------------------------------------|-----------|-----------------------------|----------|-------------------|-----------|--------|
|                                            |           | Three months ended          |          | Nine months ended |           |        |
| September 30,                              |           | September 30,               |          | September 30,     |           |        |
| 2017                                       | 2016      | 2017                        | 2016     | 2017              | 2016      |        |
| (In thousands)                             |           |                             |          |                   |           |        |
| Assets held for sale:                      |           |                             |          |                   |           |        |
| Revenue earning equipment <sup>(1)</sup> : |           |                             |          |                   |           |        |
| Trucks                                     | \$ 14,081 | 17,091                      | \$ 6,215 | 2,528             | \$ 22,942 | 6,842  |
| Tractors                                   | 15,448    | 61,480                      | 1,127    | 7,985             | 18,444    | 22,073 |
| Trailers                                   | 2,279     | 2,563                       | 1,871    | 1,152             | 5,044     | 2,589  |
| Total assets at fair value                 | \$ 31,808 | 81,134                      | \$ 9,213 | 11,665            | \$ 46,430 | 31,504 |

(1) Assets held for sale in the above table only include the portion of revenue earning equipment held for sale where net book values exceeded fair values and fair value adjustments were recorded. The net book value of assets held for sale which were less than fair value was \$77 million and \$76 million as of September 30, 2017 and 2016, respectively.

(2) Total losses represent fair value adjustments for all vehicles reclassified to held for sale throughout the period for which fair value was less than net book value.

For the three and nine months ended September 30, 2017 and 2016, the components of gains on used vehicles, net were as follows:

|                                    |             | Three months ended September 30, |             | Nine months ended September 30, |      |
|------------------------------------|-------------|----------------------------------|-------------|---------------------------------|------|
|                                    |             | 2017                             | 2016        | 2017                            | 2016 |
|                                    |             | (In thousands)                   |             |                                 |      |
| Gains on vehicle sales, net        | \$ (11,940) | (13,538)                         | \$ (34,615) | (64,506)                        |      |
| Losses from fair value adjustments | 9,213       | 11,665                           | 46,430      | 31,504                          |      |
| Used vehicle sales, net            | \$ (2,727 ) | (1,873 )                         | \$ 11,815   | (33,002)                        |      |

## RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)  
(unaudited)

## 5. ACCRUED EXPENSES AND OTHER LIABILITIES

|                                      | September 30, 2017 |                         |           | December 31, 2016 |                         |           |
|--------------------------------------|--------------------|-------------------------|-----------|-------------------|-------------------------|-----------|
|                                      | Accrued Expenses   | Non-Current Liabilities | Total     | Accrued Expenses  | Non-Current Liabilities | Total     |
|                                      | (In thousands)     |                         |           |                   |                         |           |
| Salaries and wages                   | \$100,273          | —                       | 100,273   | \$90,913          | —                       | 90,913    |
| Deferred compensation                | 3,990              | 54,595                  | 58,585    | 2,992             | 46,541                  | 49,533    |
| Pension benefits                     | 3,842              | 462,935                 | 466,777   | 3,796             | 451,940                 | 455,736   |
| Other postretirement benefits        | 1,520              | 19,163                  | 20,683    | 1,506             | 19,459                  | 20,965    |
| Other employee benefits              | 22,678             | 2,958                   | 25,636    | 29,358            | 5,854                   | 35,212    |
| Insurance obligations <sup>(1)</sup> | 133,855            | 261,244                 | 395,099   | 127,470           | 234,336                 | 361,806   |
| Asset retirement obligations         | 6,595              | 19,810                  | 26,405    | 5,828             | 20,143                  | 25,971    |
| Operating taxes                      | 99,086             | —                       | 99,086    | 92,150            | —                       | 92,150    |
| Income taxes                         | 2,570              | 24,623                  | 27,193    | 4,197             | 23,174                  | 27,371    |
| Interest                             | 26,066             | —                       | 26,066    | 27,277            | —                       | 27,277    |
| Customer deposits                    | 66,302             | 4,089                   | 70,391    | 61,225            | 4,569                   | 65,794    |
| Deferred revenue                     | 14,997             | —                       | 14,997    | 14,064            | —                       | 14,064    |
| Other                                | 47,397             | 22,654                  | 70,051    | 46,413            | 11,549                  | 57,962    |
| Total                                | \$529,171          | 872,071                 | 1,401,242 | \$507,189         | 817,565                 | 1,324,754 |

(1) Insurance obligations are primarily comprised of self-insured claim liabilities.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## 6. DEBT

|                                                                         | Weighted-Average<br>Interest Rate |                      |            |                      |                      |
|-------------------------------------------------------------------------|-----------------------------------|----------------------|------------|----------------------|----------------------|
|                                                                         | September 30,<br>2017             | December 31,<br>2016 | Maturities | September 30<br>2017 | December 31,<br>2016 |
|                                                                         | (In thousands)                    |                      |            |                      |                      |
| Short-term debt and current portion of<br>long-term debt:               |                                   |                      |            |                      |                      |
| Short-term debt                                                         | 1.57%                             | 1.07%                |            | \$59,410             | 177,629              |
| Current portion of long-term debt                                       |                                   |                      |            | 84,532               | 613,781              |
| Total short-term debt and current portion of long-term debt             |                                   |                      |            | 143,942              | 791,410              |
| Long-term debt:                                                         |                                   |                      |            |                      |                      |
| U.S. commercial paper <sup>(1)</sup>                                    | 1.44%                             | 0.87%                | 2020       | 468,540              | 342,480              |
| Global revolving credit facility                                        | 3.20%                             | 2.06%                | 2020       | 7,596                | 4,703                |
| Unsecured U.S. notes — Medium-term notes <sup>(4)</sup>                 | 2.69%                             | 2.67%                | 2017-2025  | 4,013,602            | 4,113,421            |
| Unsecured U.S. obligations                                              | 2.52%                             | 2.19%                | 2018       | 50,000               | 50,000               |
| Unsecured foreign obligations                                           | 1.50%                             | 1.55%                | 2017-2020  | 229,030              | 232,092              |
| Asset-backed U.S. obligations <sup>(2)</sup>                            | 1.85%                             | 1.80%                | 2017-2024  | 516,009              | 459,876              |
| Capital lease obligations                                               | 3.45%                             | 3.17%                | 2017-2023  | 21,859               | 24,184               |
| Total before fair market value adjustment                               |                                   |                      |            | 5,306,636            | 5,226,756            |
| Fair market value adjustment on notes subject to hedging <sup>(3)</sup> |                                   |                      |            | (2,058)              | 1,110                |
| Debt issuance costs                                                     |                                   |                      |            | (14,762)             | (14,221)             |
|                                                                         |                                   |                      |            | 5,289,816            | 5,213,645            |
| Current portion of long-term debt                                       |                                   |                      |            | (84,532)             | (613,781)            |
| Long-term debt                                                          |                                   |                      |            | 5,205,284            | 4,599,864            |
| Total debt                                                              |                                   |                      |            | \$5,349,226          | 5,391,274            |

(1) Amounts are net of unamortized original issue discounts of \$7 million at September 30, 2017 and December 31, 2016.

(2) Asset-backed U.S. obligations are related to financing transactions backed by a portion of our revenue earning equipment.

(3) The notional amount of the executed interest rate swaps designated as fair value hedges was \$825 million at September 30, 2017 and December 31, 2016, respectively.

We maintain a \$1.2 billion global revolving credit facility with a syndicate of twelve lending institutions led by Bank of America N.A., Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, Mizuho Corporate Bank, Ltd., Royal Bank of Canada, Lloyds Bank Plc, U.S. Bank National Association and Wells Fargo Bank, N.A. The facility expires in January 2020. The agreement provides for annual facility fees which range from 7.5 basis points to 25 basis points based on Ryder's long-term credit ratings. The annual facility fee is currently 10 basis points, which applies to the total facility size of \$1.2 billion.

The credit facility is used primarily to finance working capital but can also be used to issue up to \$75 million in letters of credit (there were no letters of credit outstanding against the facility at September 30, 2017). At our option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The credit facility contains no provisions limiting its availability in the event of a material adverse change to Ryder's business operations; however, the credit facility does contain standard representations and warranties, events of

default, cross-default provisions and certain affirmative and negative covenants.

In order to maintain availability of funding, we must maintain a ratio of debt to consolidated net worth of less than or equal to 300%. Net worth, as defined in the credit facility, represents shareholders' equity excluding any accumulated other comprehensive income or loss associated with our pension and other postretirement plans. The ratio at September 30, 2017, was 192%. At September 30, 2017, there was \$664 million available under the credit facility.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Our global revolving credit facility enables us to refinance short-term obligations on a long-term basis. Short-term commercial paper obligations not expected to require the use of working capital are classified as long-term obligations, as we have both the intent and ability to refinance on a long-term basis. In addition, we have the intent and ability to refinance the current portion of certain long-term debt on a long-term basis. At September 30, 2017, we classified \$469 million of short-term commercial paper and \$50 million of the current portion of long-term debt as long-term debt. At December 31, 2016, we classified \$342 million of short-term commercial paper and \$350 million of the current portion of long-term debt as long-term debt.

In August 2017, we issued \$300 million of unsecured medium-term notes maturing in September 2022. In February 2017, we issued \$300 million of unsecured medium-term notes maturing in March 2022. The proceeds from these notes were used to pay off maturing debt and for general corporate purposes. If these notes are downgraded below investment grade following, or as a result of, a change in control, the note holders can require us to repurchase all or a portion of the notes at a purchase price equal to 101% of principal value plus accrued and unpaid interest.

In June 2017, we received \$98 million from financing transactions backed by a portion of our revenue earning equipment. The proceeds from these transactions were used for general corporate purposes. We have provided end of term guarantees for the residual value of the revenue earning equipment in these transactions. The transaction proceeds, along with the end of term residual value guarantees, have been included within "asset-backed U.S. obligations" in the preceding table.

We have a trade receivables purchase and sale program, pursuant to which we sell certain of our domestic trade accounts receivable to a bankruptcy remote, consolidated subsidiary of Ryder, that in turn sells, on a revolving basis, an ownership interest in certain of these accounts receivable to a committed purchaser. The subsidiary is considered a VIE and is consolidated based on our control of the entity's activities. We use this program to provide additional liquidity to fund our operations, particularly when it is cost effective to do so. The costs under the program may vary based on changes in interest rates. The available proceeds that may be received under the program are limited to \$175 million. The program was renewed in October 2017. If no event occurs which causes early termination, the 364-day program will expire on October 22, 2018. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. Sales of receivables under this program are accounted for as secured borrowings based on our continuing involvement in the transferred assets. No amounts were outstanding under the program at September 30, 2017 or December 31, 2016.

At September 30, 2017 and December 31, 2016, we had letters of credit and surety bonds outstanding totaling \$357 million and \$354 million, respectively, which primarily guarantee the payment of insurance claims.

The fair value of total debt (excluding capital lease and asset-backed U.S. obligations) at September 30, 2017 and December 31, 2016 was approximately \$4.89 billion and \$4.97 billion, respectively. For publicly-traded debt, estimates of fair value were based on market prices. For other debt, fair value was estimated based on a model-driven approach using rates currently available to us for debt with similar terms and remaining maturities. The fair value measurements of our publicly-traded debt and other debt were classified within Level 2 of the fair value hierarchy. The carrying amounts reported in the Consolidated Condensed Balance Sheets for "Cash and cash equivalents," "Receivables, net" and "Accounts payable" approximate fair value because of the immediate or short-term maturities of these financial instruments.



RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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## 7. DERIVATIVES

From time to time, we enter into interest rate derivative contracts to manage our fixed and variable interest rate exposure and to better align the repricing of debt instruments to that of our portfolio of assets. We assess the risk that changes in interest rates will have either on the fair value of debt obligations or on the amount of future interest payments by monitoring changes in interest rate exposures and by evaluating hedging opportunities. We regularly monitor interest rate risk attributable to both our outstanding and forecasted debt obligations as well as any offsetting hedge positions. This risk management process involves the use of analytical techniques, including cash flow sensitivity analyses, to estimate the expected impact of changes in interest rates on our future cash flows.

As of September 30, 2017, we had interest rate swaps outstanding, which are designated as fair value hedges for certain debt obligations, with a total notional value of \$825 million and maturities through 2022. Interest rate swaps are measured at fair value on a recurring basis using Level 2 fair value inputs. The fair value amounts of the interest rate swaps are recorded in "Direct financing leases and other assets" and "Other non-current liabilities" in our Consolidated Condensed Balance Sheets. As of September 30, 2017, these amounts are not material to our consolidated financial position or results of operations and have not changed significantly from the amounts reported at December 31, 2016. Changes in the fair value of our interest rate swaps were offset by changes in the fair value of the hedged debt instruments. Accordingly, there was no ineffectiveness related to the interest rate swaps.

## 8. SHARE REPURCHASE PROGRAMS

In December 2015, our Board of Directors authorized a share repurchase program intended to mitigate the dilutive impact of shares issued under our employee stock plans (the program). Under the program, management is authorized to repurchase (i) up to 1.5 million shares of common stock, the sum of which will not exceed the number of shares issued to employees under Ryder's employee stock plans from December 1, 2015 to December 9, 2017, plus (ii) 0.5 million shares issued to employees that were not repurchased under Ryder's previous share repurchase program. The program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for Ryder under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the program, which allow for share repurchases during Ryder's quarterly blackout periods as set forth in the trading plan.

During the nine months ended September 30, 2017 and September 30, 2016, we repurchased approximately 933,000 shares for \$65.9 million and 380,000 shares for \$25.7 million, respectively.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)  
(unaudited)

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following summary sets forth the components of accumulated other comprehensive loss, net of tax:

|                             | Currency<br>Translation<br>Adjustments<br>and Other<br>(In thousands) | Net Actuarial<br>Loss <sup>(1)</sup> | Prior Service<br>(Cost)/<br>Credit <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------|-----------------------------------------------------------------------|--------------------------------------|---------------------------------------------------|-----------------------------------------------|
| December 31, 2016           | \$(206,610)                                                           | (620,292 )                           | (7,130 )                                          | (834,032 )                                    |
| Amortization                | —                                                                     | 15,252                               | 165                                               | 15,417                                        |
| Other current period change | 70,991                                                                | 810                                  | —                                                 | 71,801                                        |
| September 30, 2017          | \$(135,619)                                                           | (604,230 )                           | (6,965 )                                          | (746,814 )                                    |

|                             | Currency<br>Translation<br>Adjustments<br>and Other<br>(In thousands) | Net Actuarial<br>Loss <sup>(1)</sup> | Prior Service<br>(Cost)/<br>Credit <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------|-----------------------------------------------------------------------|--------------------------------------|---------------------------------------------------|-----------------------------------------------|
| December 31, 2015           | \$(136,020)                                                           | (576,993 )                           | 278                                               | (712,735 )                                    |
| Amortization                | —                                                                     | 14,052                               | 134                                               | 14,186                                        |
| Other current period change | (37,874 )                                                             | (5,495 )                             | (5,527 )                                          | (48,896 )                                     |
| September 30, 2016          | \$(173,894)                                                           | (568,436 )                           | (5,115 )                                          | (747,445 )                                    |

<sup>(1)</sup> These amounts are included in the computation of net pension expense. See Note 12, "Employee Benefit Plans," for further information.

The gain from currency translation adjustments in the nine months ended September 30, 2017 of \$71.0 million was primarily due to the strengthening of the British Pound and the Canadian Dollar against the U.S. Dollar. The loss from currency translation adjustments in the nine months ended September 30, 2016 of \$37.9 million was due to the weakening of the British Pound against the U.S. Dollar, partially offset by the strengthening of the Canadian Dollar against the U.S. Dollar.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## 10. EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per common share from continuing operations:

|                                                                                | Three months<br>ended September<br>30,   |        | Nine months ended<br>September 30, |         |
|--------------------------------------------------------------------------------|------------------------------------------|--------|------------------------------------|---------|
|                                                                                | 2017                                     | 2016   | 2017                               | 2016    |
|                                                                                | (In thousands, except per share amounts) |        |                                    |         |
| Earnings per share — Basic:                                                    |                                          |        |                                    |         |
| Earnings from continuing operations                                            | \$58,913                                 | 85,138 | \$148,535                          | 215,365 |
| Less: Earnings allocated to unvested stock                                     | (222 )                                   | (261 ) | (536 )                             | (674 )  |
| Earnings from continuing operations available to common shareholders — Basic   | \$58,691                                 | 84,877 | \$147,999                          | 214,691 |
| Weighted average common shares outstanding — Basic                             | 52,405                                   | 52,953 | 52,671                             | 53,029  |
| Earnings from continuing operations per common share — Basic                   | \$1.12                                   | 1.60   | \$2.81                             | 4.05    |
| Earnings per share — Diluted:                                                  |                                          |        |                                    |         |
| Earnings from continuing operations                                            | \$58,913                                 | 85,138 | \$148,535                          | 215,365 |
| Less: Earnings allocated to unvested stock                                     | (222 )                                   | (260 ) | (536 )                             | (672 )  |
| Earnings from continuing operations available to common shareholders — Diluted | \$58,691                                 | 84,878 | \$147,999                          | 214,693 |
| Weighted average common shares outstanding — Basic                             | 52,405                                   | 52,953 | 52,671                             | 53,029  |
| Effect of dilutive equity awards                                               | 371                                      | 338    | 356                                | 315     |
| Weighted average common shares outstanding — Diluted                           | 52,776                                   | 53,291 | 53,027                             | 53,344  |
| Earnings from continuing operations per common share — Diluted                 | \$1.11                                   | 1.59   | \$2.79                             | 4.02    |
| Anti-dilutive equity awards not included above                                 | 843                                      | 653    | 889                                | 836     |

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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## 11. SHARE-BASED COMPENSATION PLANS

Share-based incentive awards are provided to employees under the terms of various share-based compensation plans (collectively, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors and principally include at-the-money stock options, unvested stock and cash awards. Unvested stock awards include grants of market-based, performance-based and time-vested restricted stock rights. Under the terms of our Plans, dividends are not paid unless the stock award vests. Upon vesting, the amount of the dividends paid is equal to the aggregate dividends declared on common shares during the period from the grant date of the award until the date the shares underlying the award are delivered.

The following table provides information on share-based compensation expense and income tax benefits recognized during the periods:

|                                              | Three months<br>ended<br>September 30,<br>2017 2016 |          | Nine months<br>ended September<br>30,<br>2017 2016 |          |
|----------------------------------------------|-----------------------------------------------------|----------|----------------------------------------------------|----------|
|                                              | (In thousands)                                      |          |                                                    |          |
| Stock option and stock purchase plans        | \$1,953                                             | 1,633    | \$5,811                                            | 5,410    |
| Unvested stock                               | 2,618                                               | 2,237    | 8,823                                              | 8,460    |
| Share-based compensation expense             | 4,571                                               | 3,870    | 14,634                                             | 13,870   |
| Income tax benefit                           | (1,608 )                                            | (1,321 ) | (5,090 )                                           | (4,691 ) |
| Share-based compensation expense, net of tax | \$2,963                                             | 2,549    | \$9,544                                            | 9,179    |

The following table is a summary of compensation expense recognized for market-based cash awards in addition to the share-based compensation expense reported in the previous table:

|             | Three<br>months<br>ended<br>September<br>30,<br>2017 | Nine<br>months<br>ended<br>September<br>30,<br>2016 | Three<br>months<br>ended<br>September<br>30,<br>2017 | Nine<br>months<br>ended<br>September<br>30,<br>2016 |
|-------------|------------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|
|             | (In thousands)                                       |                                                     |                                                      |                                                     |
| Cash awards | \$124                                                | 119                                                 | \$245                                                | 447                                                 |

Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements at September 30, 2017 was \$23.3 million and is expected to be recognized over a weighted-average period of 1.9 years.

The following table is a summary of the awards granted under the Plans during the periods presented:

|  | Nine<br>months<br>ended<br>September<br>30,<br>2017 | 2016 |
|--|-----------------------------------------------------|------|
|  | (Shares in thousands)                               |      |

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|                                           |     |     |
|-------------------------------------------|-----|-----|
| Stock options                             | 465 | 513 |
| Market-based restricted stock rights      | 46  | 34  |
| Performance-based restricted stock rights | 79  | 45  |
| Time-vested restricted stock rights       | 110 | 129 |
| Total                                     | 700 | 721 |

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## RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)  
(unaudited)

## 12. EMPLOYEE BENEFIT PLANS

Components of net pension expense were as follows:

|                                | Three months<br>ended September<br>30,<br>2017      2016 |           | Nine months ended<br>September 30,<br>2017      2016 |           |
|--------------------------------|----------------------------------------------------------|-----------|------------------------------------------------------|-----------|
|                                | (In thousands)                                           |           |                                                      |           |
| Pension Benefits               |                                                          |           |                                                      |           |
| Company-administered plans:    |                                                          |           |                                                      |           |
| Service cost                   | \$3,165                                                  | 2,660     | \$9,431                                              | 9,065     |
| Interest cost                  | 21,609                                                   | 22,754    | 64,524                                               | 72,086    |
| Expected return on plan assets | (22,822 )                                                | (22,601 ) | (68,012 )                                            | (68,353 ) |
| Amortization of:               |                                                          |           |                                                      |           |
| Net actuarial loss             | 8,336                                                    | 7,324     | 24,863                                               | 23,889    |
| Prior service cost             | 133                                                      | 320       | 399                                                  | 3,060     |
|                                | 10,421                                                   | 10,457    | 31,205                                               | 39,747    |
| Union-administered plans       | 7,873                                                    | 2,493     | 12,996                                               | 7,221     |
| Net pension expense            | \$18,294                                                 | 12,950    | \$44,201                                             | 46,968    |
| Company-administered plans:    |                                                          |           |                                                      |           |
| U.S.                           | \$10,929                                                 | 10,952    | \$32,787                                             | 41,389    |
| Non-U.S.                       | (508 )                                                   | (495 )    | (1,582 )                                             | (1,642 )  |
|                                | 10,421                                                   | 10,457    | 31,205                                               | 39,747    |
| Union-administered plans       | 7,873                                                    | 2,493     | 12,996                                               | 7,221     |
| Net pension expense            | \$18,294                                                 | 12,950    | \$44,201                                             | 46,968    |

During the nine months ended September 30, 2017, we contributed \$10.6 million to our pension plans. In 2017, the expected total contributions to our pension plans are approximately \$22 million. We also maintain other postretirement benefit plans that are not reflected in the above table. The amount of postretirement benefit expense was not material for the three or nine months ended September 30, 2017.

During the third quarter of 2017, we recorded an estimated pension settlement charge of \$5.5 million for the exit from a U.S. multi-employer pension plan. This charge was recorded within "Selling, general, and administrative expenses" in our Consolidated Condensed Statement of Earnings and is included in the Union-administered plans expense.

During the second quarter of 2016, we determined that certain pension benefit improvements made in 2009 had not been fully reflected in our projected benefit obligation. Because the amounts were not material to our consolidated financial statements in any individual period, and the cumulative amount was not material to 2016 results, we recognized a one-time, non-cash charge of \$7.7 million in "Selling, general and administrative expenses" and a \$12.8 million pre-tax increase to "Accumulated other comprehensive loss" in our second quarter 2016 consolidated condensed financial statements to correctly state the pension benefit obligation and account for these 2009 benefit improvements.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## 13. OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance as shown in Note 16, "Segment Reporting," excludes certain items we do not believe are representative of the ongoing operations of the segment. Excluding these items from our segment measure of performance allows for better year over year comparison:

|                                            | Three<br>months<br>ended<br>September<br>30,<br>2017 |      | Nine months<br>ended<br>September 30,<br>2016 |       |
|--------------------------------------------|------------------------------------------------------|------|-----------------------------------------------|-------|
|                                            | 2017                                                 | 2016 | 2017                                          | 2016  |
|                                            | (In thousands)                                       |      |                                               |       |
| Pension settlement charge <sup>(1)</sup>   | \$5,454                                              | —    | \$5,454                                       | —     |
| Fees related to cost-savings program       | 4,255                                                | —    | 4,255                                         | —     |
| Operating tax adjustment                   | —                                                    | —    | 2,205                                         | —     |
| Restructuring                              | —                                                    | —    | (2,574 )                                      | —     |
| Pension-related adjustments <sup>(1)</sup> | —                                                    | —    | —                                             | 7,650 |
| Restructuring and other items, net         | \$9,709                                              | —    | \$9,340                                       | 7,650 |

(1) Refer to Note 12, Employee Benefit Plans for additional information.

During the third quarter of 2017, we incurred charges of \$4.3 million related to consulting fees associated with a cost-savings program. These items were reflected within "Selling, general and administrative expenses" in our Consolidated Condensed Statement of Earnings.

During the first quarter of 2017, we determined that certain operating tax expenses related to prior periods had not been recognized in prior period earnings. We recorded a one-time charge of \$2.2 million within "Selling, general and administrative expenses" in our Consolidated Condensed Statement of Earnings as the impact of the adjustment was not material to our consolidated condensed financial statements in any individual prior period, and the cumulative amount was not material to the first quarter 2017 results.

During the second quarter of 2017, we realized restructuring credits of \$2.6 million related to the gains on sale of certain UK facilities that were closed as part of prior year restructuring activities. These items were reflected within "Miscellaneous income, net" in our Consolidated Condensed Statement of Earnings.

## 14. OTHER MATTERS

We are a party to various claims, complaints and proceedings arising in the ordinary course of our continuing business operations including, but not limited to, those relating to commercial and employment claims, environmental matters, risk management matters (e.g., vehicle liability, workers' compensation, etc.) and administrative assessments primarily associated with operating taxes. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. We believe that the resolution of these claims, complaints and legal proceedings will not have a material effect on our consolidated condensed financial statements.

Our estimates regarding potential losses and materiality are based on our judgment and assessment of the claims utilizing currently available information. Although we will continue to reassess our reserves and estimates based on future developments, our objective assessment of the legal merits of such claims may not always be predictive of the outcome and actual results may vary from our current estimates.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

|                                                                               | Nine months ended<br>September 30, |           |
|-------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                               | 2017                               | 2016      |
|                                                                               | (In thousands)                     |           |
| Interest paid                                                                 | \$99,889                           | 100,903   |
| Income taxes paid                                                             | 10,596                             | 12,250    |
| Changes in accounts payable related to purchases of revenue earning equipment | (63,184 )                          | (107,177) |
| Operating and revenue earning equipment acquired under capital leases         | 6,209                              | 947       |

## 16. SEGMENT REPORTING

Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We report our financial performance in three business segments: (1) Fleet Management Solutions (FMS), which provides leasing, commercial rental and maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) Dedicated Transportation Solutions (DTS), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) Supply Chain Solutions (SCS), which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.

Our primary measurement of segment financial performance, defined as segment "Earnings Before Tax" (EBT) from continuing operations, includes an allocation of Central Support Services (CSS) and excludes non-operating pension costs and restructuring and other items, net, as discussed in Note 13, "Other Items Impacting Comparability." CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services, public affairs, information technology, health and safety, legal, marketing and corporate communications. The objective of the EBT measurement is to provide clarity on the profitability of each segment and, ultimately, to hold leadership of each segment accountable for their allocated share of CSS costs. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the costs for investor relations, public affairs and certain executive compensation. CSS costs attributable to the business segments are predominantly allocated to FMS, DTS and SCS as follows:

- Finance, corporate services, and health and safety — allocated to each segment based upon estimated and planned resource utilization for each segment;
- Human resources — individual costs within this category are allocated under various methods, including allocation based on estimated utilization and number of personnel supported for each segment;
- Information technology — principally allocated based upon utilization-related metrics such as number of users or minutes of CPU time. Customer-related project costs and expenses are allocated to the business segment responsible for the project; and

•Other — represents legal and other centralized costs and expenses including certain share-based incentive compensation costs. Such expenses, if allocated to a segment, are based primarily on the number of personnel supported in each segment.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the DTS and SCS segments. Inter-segment revenue and EBT are accounted for at rates similar to those executed with third parties. EBT related to inter-segment equipment and services billed to DTS and SCS customers (equipment contribution) are included in both FMS and the segment that served the customer and then eliminated (presented as "Eliminations" in the table below).

The following tables set forth financial information for each of our segments and provide a reconciliation between segment EBT and earnings from continuing operations before income taxes for the three and nine months ended September 30, 2017 and 2016. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented. Prior period Segment EBT amounts and non-operating pension costs have been reclassified to conform to the current period presentation. These reclassifications were immaterial to the financial statements taken as a whole.

|                                                         | FMS            | DTS     | SCS     | Eliminations | Total     |
|---------------------------------------------------------|----------------|---------|---------|--------------|-----------|
|                                                         | (In thousands) |         |         |              |           |
| For the three months ended September 30, 2017           |                |         |         |              |           |
| Revenue from external customers                         | \$ 1,080,191   | 272,334 | 496,004 | —            | 1,848,529 |
| Inter-segment revenue                                   | 115,607        | —       | —       | (115,607 )   | —         |
| Total revenue                                           | \$ 1,195,798   | 272,334 | 496,004 | (115,607 )   | 1,848,529 |
| Segment EBT                                             | \$ 100,693     | 13,770  | 22,052  | (14,464 )    | 122,051   |
| Unallocated CSS                                         |                |         |         |              | (11,041 ) |
| Non-operating pension costs                             |                |         |         |              | (6,958 )  |
| Restructuring and other items, net <sup>(1)</sup>       |                |         |         |              | (9,709 )  |
| Earnings from continuing operations before income taxes |                |         |         |              | \$94,343  |
| Segment capital expenditures paid                       | \$431,093      | 1,878   | 16,705  | —            | 449,676   |
| Unallocated CSS capital expenditures paid               |                |         |         |              | 7,917     |
| Capital expenditures paid                               |                |         |         |              | \$457,593 |
| For the three months ended September 30, 2016           |                |         |         |              |           |
| Revenue from external customers                         | \$ 1,046,599   | 260,921 | 416,898 | —            | 1,724,418 |
| Inter-segment revenue                                   | 108,412        | —       | —       | (108,412 )   | —         |
| Total revenue                                           | \$ 1,155,011   | 260,921 | 416,898 | (108,412 )   | 1,724,418 |
| Segment EBT                                             | \$ 112,507     | 17,584  | 30,956  | (12,606 )    | 148,441   |
| Unallocated CSS                                         |                |         |         |              | (9,275 )  |
| Non-operating pension costs                             |                |         |         |              | (7,468 )  |
| Earnings from continuing operations before income taxes |                |         |         |              | \$131,698 |
| Segment capital expenditures paid                       | \$375,779      | 1,060   | 8,181   | —            | 385,020   |
| Unallocated CSS capital expenditures paid               |                |         |         |              | 6,157     |
| Capital expenditures paid                               |                |         |         |              | \$391,177 |

(1) Refer to Note 13, Other Items Impacting Comparability for additional information.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

|                                                         | FMS            | DTS     | SCS       | Eliminations | Total       |
|---------------------------------------------------------|----------------|---------|-----------|--------------|-------------|
|                                                         | (In thousands) |         |           |              |             |
| For the nine months ended September 30, 2017            |                |         |           |              |             |
| Revenue from external customers                         | \$3,148,809    | 811,620 | 1,429,477 | —            | 5,389,906   |
| Inter-segment revenue                                   | 343,038        | —       | —         | (343,038)    | —           |
| Total revenue                                           | \$3,491,847    | 811,620 | 1,429,477 | (343,038)    | 5,389,906   |
| Segment EBT                                             | \$220,973      | 39,892  | 75,359    | (38,053)     | 298,171     |
| Unallocated CSS                                         |                |         |           |              | (32,965)    |
| Non-operating pension costs                             |                |         |           |              | (20,875)    |
| Restructuring and other items, net <sup>(1)</sup>       |                |         |           |              | (9,340)     |
| Earnings from continuing operations before income taxes |                |         |           |              | \$234,991   |
| Segment capital expenditures paid                       | \$1,255,789    | 2,989   | 34,839    | —            | 1,293,617   |
| Unallocated CSS capital expenditures paid               |                |         |           |              | 19,228      |
| Capital expenditures paid                               |                |         |           |              | \$1,312,845 |
| For the nine months ended September 30, 2016            |                |         |           |              |             |
| Revenue from external customers                         | \$3,086,144    | 764,025 | 1,207,665 | —            | 5,057,834   |
| Inter-segment revenue                                   | 318,308        | —       | —         | (318,308)    | —           |
| Total revenue                                           | \$3,404,452    | 764,025 | 1,207,665 | (318,308)    | 5,057,834   |
| Segment EBT                                             | \$306,554      | 48,300  | 79,105    | (37,116)     | 396,843     |
| Unallocated CSS                                         |                |         |           |              | (29,960)    |
| Non-operating pension costs                             |                |         |           |              | (22,048)    |
| Pension-related charge <sup>(2)</sup>                   |                |         |           |              | (7,650)     |
| Earnings from continuing operations before income taxes |                |         |           |              | \$337,185   |
| Segment capital expenditures paid                       | \$1,438,104    | 1,940   | 52,643    | —            | 1,492,687   |
| Unallocated CSS capital expenditures paid               |                |         |           |              | 18,672      |
| Capital expenditures paid                               |                |         |           |              | \$1,511,359 |

(1) Refer to Note 13, Other Items Impacting Comparability for additional information.

During the second quarter of 2016, we determined that certain pension benefit improvements made in 2009 were (2) not fully reflected in our projected benefit obligation. We recognized a charge of \$7.7 million related to these benefit improvements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2016 Annual Report on Form 10-K.

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. We report our financial performance based on three segments: (1) Fleet Management Solutions (FMS), which provides leasing, commercial rental, and maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) Dedicated Transportation Solutions (DTS), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) Supply Chain Solutions (SCS), which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.

We operate in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including automotive, industrial, food and beverage service, consumer packaged goods (CPG), transportation and warehousing, technology and healthcare, retail, housing, business and personal services, and paper and publishing.

In 2016, we expanded our full service lease product line to provide lease customers additional flexibility, choice and control in fleet management, and we renamed this lease product line "ChoiceLease." Our ChoiceLease product line allows customers to select the level of maintenance they prefer in their leases, from full service or total bumper-to-bumper coverage to on demand or pay-as-you-go maintenance. We also combined our historical contract maintenance and our contract-related maintenance product offerings into a new product line "SelectCare." Our SelectCare product line allows customers to select the level of maintenance to keep their fleet running properly, as well as the option to choose where they want their service delivered. Beginning in 2017, FMS is using these new product names in its reporting.

This MD&A includes certain non-GAAP financial measures. Please refer to the "Non-GAAP Financial Measures" section of this MD&A for information on the non-GAAP measures included in the MD&A, reconciliations to the most comparable GAAP financial measure and the reasons why we believe each measure is useful to investors.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Operating results were as follows:

|                                                               | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           | Change<br>2017/2016 |                |
|---------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|---------------------|----------------|
|                                                               | 2017                                | 2016      | 2017                               | 2016      | Three<br>Months     | Nine<br>Months |
| (In thousands, except per share amounts)                      |                                     |           |                                    |           |                     |                |
| Total revenue                                                 | \$1,848,529                         | 1,724,418 | \$5,389,906                        | 5,057,834 | 7 %                 | 7 %            |
| Operating revenue <sup>(1)</sup>                              | 1,525,453                           | 1,468,293 | 4,453,768                          | 4,324,019 | 4 %                 | 3 %            |
|                                                               |                                     |           |                                    |           |                     |                |
| EBT                                                           | \$94,343                            | 131,698   | \$234,991                          | 337,185   | (28)%               | (30)%          |
| Comparable EBT <sup>(2)</sup>                                 | 111,010                             | 139,141   | 265,206                            | 366,858   | (20)%               | (28)%          |
| Earnings from continuing operations                           | 58,913                              | 85,138    | 148,535                            | 215,365   | (31)%               | (31)%          |
| Comparable earnings from continuing operations <sup>(2)</sup> | 70,820                              | 89,558    | 168,079                            | 233,039   | (21)%               | (28)%          |
| Net earnings                                                  | 58,623                              | 84,752    | 147,588                            | 214,296   | (31)%               | (31)%          |
|                                                               |                                     |           |                                    |           |                     |                |
| Earnings per common share (EPS) — Diluted                     |                                     |           |                                    |           |                     |                |
| Continuing operations                                         | \$ 1.11                             | 1.59      | \$ 2.79                            | 4.02      | (30)%               | (31)%          |
| Comparable <sup>(2)</sup>                                     | 1.33                                | 1.67      | 3.16                               | 4.35      | (20)%               | (27)%          |
| Net earnings                                                  | 1.11                                | 1.59      | 2.77                               | 4.00      | (30)%               | (31)%          |

Non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section of this MD&A for a (1) reconciliation of total revenue to operating revenue and the reasons why management believes this measure is important to investors.

Non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section for a reconciliation of EBT, (2) net earnings and earnings per diluted common share to the comparable measures and the reasons why management believes these measures are important to investors.

Total revenue and operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 7% and 4%, respectively, in the third quarter of 2017. For the nine months ended September 30, 2017, total revenue and operating revenue increased 7% and 3%, respectively. Total revenue in both periods increased due to higher operating revenue and increased subcontracted transportation passed through to customers, reflecting new business and higher volumes, as well as higher fuel costs passed through to customers. Operating revenue in both periods increased due to higher revenue in the SCS business segment and higher contractual ChoiceLease revenue. Operating revenue growth was partially offset by lower commercial rental revenue in the nine months ended September 30, 2017.

EBT decreased 28% in the third quarter of 2017, reflecting lower year over year operating results in all segments, a \$5.5 million estimated pension settlement charge for the exit from a U.S. multi-employer pension plan and \$4.3 million related to consulting fees associated with a cost-savings program. In FMS, EBT decreased in the third quarter due to accelerated depreciation of \$4 million on vehicles expected to be made available for sale through June 2018 and more normalized maintenance spending associated with vehicles being prepared for sale, as well as increased overhead spending, primarily due to the timing of incentive compensation and higher sales and marketing expense. DTS EBT decreased in the third quarter due to higher insurance premiums, higher maintenance costs on certain older model year vehicles and the impact of one less work day. SCS EBT decreased in the third quarter primarily due to the

operating performance of two customer accounts, including a particularly challenging start-up, and higher overhead spending, primarily for planned investments in information technology and sales. The net impact of hurricanes was neutral in the third quarter of 2017, as hurricane-related increases in commercial rental demand were offset by property losses.

EBT decreased 30% in the nine months ended September 30, 2017, primarily reflecting lower used vehicle sales and commercial rental results, as well as accelerated depreciation of \$21 million, a \$5.5 million estimated pension settlement charge, \$4.3 million related to consulting fees associated with a cost-savings program and a particularly challenging start-up during the third quarter in the SCS segment.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

## CONSOLIDATED RESULTS

## Lease and Rental

|                           | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |           | Change<br>2017/2016 |                |
|---------------------------|-------------------------------------|---------|------------------------------------|-----------|---------------------|----------------|
|                           | 2017                                | 2016    | 2017                               | 2016      | Three<br>Months     | Nine<br>Months |
|                           | (Dollars in thousands)              |         |                                    |           |                     |                |
| Lease and rental revenues | \$823,197                           | 803,006 | \$2,387,801                        | 2,369,147 | 3 %                 | 1 %            |
| Cost of lease and rental  | 588,626                             | 557,901 | 1,745,777                          | 1,665,693 | 6 %                 | 5 %            |
| Gross margin              | 234,571                             | 245,105 | 642,024                            | 703,454   | (4)%                | (9 )%          |
| Gross margin %            | 28                                  | % 31    | % 27                               | % 30      | %                   |                |

Lease and rental revenues represent revenue from our ChoiceLease and commercial rental product offerings within our FMS segment. Revenues increased 3% to \$823 million in the third quarter and 1% to \$2.39 billion in the nine months ended September 30, 2017, driven by growth in the ChoiceLease fleet and higher prices on replacement vehicles in the ChoiceLease product offering. In the nine months ended September 30, 2017, ChoiceLease revenue growth was partially offset by lower commercial rental revenue reflecting lower demand.

Cost of lease and rental represents the direct costs related to lease and rental revenues. These costs consist of depreciation of revenue earning equipment, maintenance costs (primarily repair parts and labor), and other costs such as licenses, insurance and operating taxes. Cost of lease and rental excludes interest costs from vehicle financing. Cost of lease and rental increased 6% in the third quarter and 5% in the nine months ended September 30, 2017, primarily due to higher depreciation and maintenance costs from a larger average lease fleet and normalized maintenance spending associated with vehicles being prepared for sale. During the nine months ended, cost of lease and rental also increased due to higher maintenance costs on certain older model year vehicles. Cost of lease and rental was also impacted by accelerated depreciation on vehicles expected to be made available for sale through June 2018 of \$4 million in the third quarter and \$21 million in the nine months ended September 30, 2017. These increases were partially offset by lower depreciation on a smaller average rental fleet. Cost of lease and rental also increased \$1 million in the third quarter of 2017 and \$3 million in the nine months ended September 30, 2017, due to changes in estimated residual values effective January 1, 2017.

Lease and rental gross margin decreased 4% in the third quarter and 9% in the nine months ended September 30, 2017. Lease and rental gross margin as a percentage of revenue decreased to 28% in the third quarter and to 27% in the nine months ended September 30, 2017. The decrease in gross margin dollars and as a percentage of revenue in the third quarter was due to accelerated depreciation on vehicles expected to be made available for sale through June 2018 and more normalized maintenance spending associated with vehicles being prepared for sale. The decrease in gross margin dollars in the nine months ended September 30, 2017, was due to lower commercial rental demand, higher maintenance costs and accelerated depreciation. The decrease in gross margin dollars and as a percentage of revenue in the nine months ended September 30, 2017, was primarily due to higher maintenance costs and accelerated depreciation.

## Services

|  | Three months ended<br>September 30, | Nine months ended<br>September 30, | Change<br>2017/2016 |
|--|-------------------------------------|------------------------------------|---------------------|
|--|-------------------------------------|------------------------------------|---------------------|

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|                  | 2017                   | 2016    | 2017         | 2016      | Three Months | Nine Months |
|------------------|------------------------|---------|--------------|-----------|--------------|-------------|
|                  | (Dollars in thousands) |         |              |           |              |             |
| Services revenue | \$ 896,245             | 801,004 | \$ 2,619,139 | 2,345,922 | 12 %         | 12 %        |
| Cost of services | 761,470                | 658,793 | 2,210,314    | 1,936,636 | 16 %         | 14 %        |
| Gross margin     | 134,775                | 142,211 | 408,825      | 409,286   | (5 )%        | — %         |
| Gross margin %   | 15 %                   | 18 %    | 16 %         | 17 %      |              |             |

Services revenue represents all the revenues associated with our DTS and SCS segments, as well as SelectCare and fleet support services associated with our FMS segment. Services revenue increased 12% in the third quarter, primarily due to new business in the SCS and DTS segments. Services revenue increased 12% in the nine months ended September 30, 2017, primarily due to new business and increased volumes in the SCS and DTS segments. Services revenue also benefited from higher fuel costs passed through to our customers in both the three and nine months ended September 30, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Cost of services represents the direct costs related to services revenue and is primarily comprised of salaries and employee-related costs, subcontracted transportation (purchased transportation from third parties), fuel, vehicle liability costs and maintenance costs. Cost of services increased 16% in the third quarter and 14% in the nine months ended September 30, 2017, primarily due to higher volumes in SCS and SelectCare and higher fuel costs in SCS and DTS. Cost of services also increased in both periods due to higher costs incurred during the start-up phase on certain new SCS contracts and higher vehicle maintenance costs on certain older model year vehicles in DTS.

Services gross margin decreased 5% in the third quarter of 2017 and remained unchanged in the nine months ended September 30, 2017. Services gross margin as a percentage of revenue decreased to 15% in the third quarter and to 16% in the nine months ended September 30, 2017. The decrease in gross margin dollars and as a percentage of revenue in the third quarter and nine months ended, reflects lower operating performance on certain SCS contracts, including a particularly challenging start-up during the third quarter, as well as increased maintenance costs on certain older model year vehicles in DTS.

Fuel

|                       | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change<br>2017/2016 |                |
|-----------------------|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
|                       | 2017                                | 2016    | 2017                               | 2016    | Three<br>Months     | Nine<br>Months |
|                       | (Dollars in thousands)              |         |                                    |         |                     |                |
| Fuel services revenue | \$ 129,087                          | 120,408 | \$ 382,966                         | 342,765 | 7 %                 | 12 %           |
| Cost of fuel services | 124,562                             | 116,904 | 372,016                            | 331,283 | 7 %                 | 12 %           |
| Gross margin          | 4,525                               | 3,504   | 10,950                             | 11,482  | 29 %                | (5 )%          |
| Gross margin %        | 4                                   | % 3     | % 3                                | % 3     | %                   |                |

Fuel services revenue represents fuel services provided to our FMS customers. Fuel services revenue increased 7% in the third quarter of 2017 and 12% in the nine months ended September 30, 2017, primarily due to higher fuel costs passed through to customers.

Cost of fuel services includes the direct costs associated with providing our customers with fuel. These costs include fuel, salaries and employee-related costs of fuel island attendants and depreciation of our fueling facilities and equipment. Cost of fuel services increased 7% in the third quarter and 12% in the nine months ended September 30, 2017, as a result of higher fuel costs.

Fuel services gross margin increased 29% in the third quarter and decreased 5% in the nine months ended September 30, 2017. Fuel services gross margin as a percentage of revenue increased to 4% in the third quarter and remained at 3% in the nine months ended September 30, 2017, compared to the same periods of 2016. Fuel is largely a pass-through to customers for which we realize minimal changes in margin during periods of steady market fuel prices. However, fuel services margin is impacted by sudden increases or decreases in market fuel prices during a short period of time, as customer pricing for fuel is established based on trailing market fuel costs.

| Three months<br>ended<br>September 30, |      | Nine months<br>ended<br>September 30, |      | Change<br>2017/2016 |
|----------------------------------------|------|---------------------------------------|------|---------------------|
| 2017                                   | 2016 | 2017                                  | 2016 |                     |

Three Nine  
MonthMonths

(In thousands)

Other operating expenses \$28,445 27,997 \$87,122 85,944 2 % 1 %

Other operating expenses include costs related to our owned and leased facilities within the FMS segment, such as facility depreciation, rent, purchased insurance, utilities and taxes. These facilities are utilized to provide maintenance to our ChoiceLease, commercial rental, and SelectCare customers. Other operating expenses increased slightly to \$28.4 million in the third quarter and to \$87.1 million in the nine months ended September 30, 2017.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

|                                                     | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change<br>2017/2016 |                |
|-----------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
|                                                     | 2017                                | 2016    | 2017                               | 2016    | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)                              |                                     |         |                                    |         |                     |                |
| Selling, general and administrative expenses (SG&A) | \$216,653                           | 191,337 | \$620,041                          | 602,768 | 13 %                | 3 %            |
| Percentage of total revenue                         | 12                                  | % 11    | % 12                               | % 12    | %                   |                |

SG&A expenses in the third quarter of 2017 increased 13% and as a percentage of total revenue increased to 12% driven by an estimated pension settlement charge for the exit from a U.S. multi-employer pension plan of \$5.5 million during the quarter as well as higher compensation-related costs, professional fees, including consulting fees associated with a cost-savings program, and information technology costs. SG&A expenses in the nine months ended September 30, 2017, increased 3% primarily due to the estimated pension settlement charge, higher information technology costs and professional fees. SG&A expenses as a percentage of total revenue remained at 12% in the nine months ended September 30, 2017 compared to the same period in 2016.

|                             | Three months<br>ended<br>September<br>30, |       | Nine months<br>ended<br>September 30, |        | Change<br>2017/2016 |                |
|-----------------------------|-------------------------------------------|-------|---------------------------------------|--------|---------------------|----------------|
|                             | 2017                                      | 2016  | 2017                                  | 2016   | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)      |                                           |       |                                       |        |                     |                |
| Non-operating pension costs | \$6,958                                   | 7,468 | 20,875                                | 29,698 | (7)%                | (30)%          |

Non-operating pension costs includes the components of our net periodic benefit cost other than service cost. These components include interest cost, expected return on plan assets, amortization of actuarial loss and prior service cost. Non-operating pension costs decreased \$0.5 million in the third quarter and \$8.8 million in the nine months ended September 30, 2017, from the respective prior year periods. The year-to-date decrease is primarily due to a one-time charge of \$7.7 million in the second quarter of 2016 to fully reflect pension benefit improvements made in 2009 in our pension benefit obligation.

|                         | Three months<br>ended<br>September<br>30, |       | Nine months<br>ended September<br>30, |        | Change<br>2017/2016 |                |
|-------------------------|-------------------------------------------|-------|---------------------------------------|--------|---------------------|----------------|
|                         | 2017                                      | 2016  | 2017                                  | 2016   | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)  |                                           |       |                                       |        |                     |                |
| Used vehicle sales, net | \$2,727                                   | 1,873 | \$(11,815)                            | 33,002 | 46%                 | (136)%         |

Used vehicle sales, net includes gains from sales of used vehicles as well as the selling costs associated with used vehicles and write-downs of vehicles to fair market values. Used vehicle sales, net increased to a gain of \$2.7 million in the third quarter of 2017 and decreased to a loss of \$11.8 million in the nine months ended September 30, 2017. The quarterly increase is driven by lower fair market value write-downs on vehicles held for sale, partially offset by

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lower tractor and truck proceeds per unit resulting in lower gains on sales. For the nine months ended September 30, 2017, used vehicle sales results have been impacted primarily by a sharp drop in the market value of tractors and trucks, which resulted in lower gains on sales and greater fair market value write-downs on vehicles held for sale. The following table presents the used vehicle pricing changes for the three and nine months ended September 30, 2017.

|          | Proceeds per<br>unit change<br>2017/2016 |                |
|----------|------------------------------------------|----------------|
|          | Three<br>Months                          | Nine<br>Months |
| Tractors | (19)%                                    | (17)%          |
| Trucks   | (15)%                                    | (16)%          |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

|                         | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |         | Change<br>2017/2016 |                |
|-------------------------|-------------------------------------|--------|------------------------------------|---------|---------------------|----------------|
|                         | 2017                                | 2016   | 2017                               | 2016    | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)  |                                     |        |                                    |         |                     |                |
| Interest expense        | \$34,854                            | 37,440 | \$104,591                          | 112,597 | (7)%                | (7)%           |
| Effective interest rate | 2.6                                 | % 2.7  | % 2.6                              | % 2.7   | %                   | %              |

Interest expense decreased 7% in the third quarter of 2017 and in the nine months ended September 30, 2017, reflecting lower average outstanding debt and a lower effective interest rate. The decrease in average outstanding debt reflects lower planned vehicle capital spending. The lower effective interest rate in 2017 reflects the replacement of higher interest rate debt with debt issuances at lower rates.

|                           | Three months<br>ended<br>September<br>30, |       | Nine months<br>ended<br>September 30, |        | Change<br>2017/2016 |                |
|---------------------------|-------------------------------------------|-------|---------------------------------------|--------|---------------------|----------------|
|                           | 2017                                      | 2016  | 2017                                  | 2016   | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)    |                                           |       |                                       |        |                     |                |
| Miscellaneous income, net | \$4,655                                   | 3,247 | \$17,636                              | 10,968 | 43%                 | 61%            |

Miscellaneous income, net consists of investment income on securities used to fund certain benefit plans, interest income, gains from sales of operating property, foreign currency transaction gains and other non-operating items. The increase in the third quarter and nine months ended September 30, 2017 is driven by increased rabbi trust investment income, gains on sales of properties of \$0.6 million in the third quarter and \$3.7 million in the nine months ended September 30, 2017, respectively, and recoveries from business interruption claims of \$3.2 million in the nine months ended September 30, 2017.

|                                               | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |         | Change<br>2017/2016 |                |
|-----------------------------------------------|-------------------------------------|--------|------------------------------------|---------|---------------------|----------------|
|                                               | 2017                                | 2016   | 2017                               | 2016    | Three<br>Months     | Nine<br>Months |
| (Dollars in thousands)                        |                                     |        |                                    |         |                     |                |
| Provision for income taxes                    | \$35,430                            | 46,560 | \$86,456                           | 121,820 | (24)%               | (29)%          |
| Effective tax rate from continuing operations | 37.6                                | % 35.4 | % 36.8                             | % 36.1  | %                   | %              |

Provision for income taxes decreased 24% in the third quarter of 2017 and 29% in the nine months ended September 30, 2017. The decrease in the provision for income taxes reflects lower taxable earnings, partially offset by a higher effective tax rate primarily due to a state tax law change in the third quarter.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

## OPERATING RESULTS BY SEGMENT

|                                                         | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            | Change<br>2017/2016<br>Three Months    Nine Months |   |       |   |
|---------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|----------------------------------------------------|---|-------|---|
|                                                         | 2017                                | 2016       | 2017                               | 2016       |                                                    |   |       |   |
|                                                         | (Dollars in thousands)              |            |                                    |            |                                                    |   |       |   |
| Total Revenue:                                          |                                     |            |                                    |            |                                                    |   |       |   |
| Fleet Management Solutions                              | \$1,195,798                         | 1,155,011  | \$3,491,847                        | 3,404,452  | 4                                                  | % | 3     | % |
| Dedicated Transportation Solutions                      | 272,334                             | 260,921    | 811,620                            | 764,025    | 4                                                  |   | 6     |   |
| Supply Chain Solutions                                  | 496,004                             | 416,898    | 1,429,477                          | 1,207,665  | 19                                                 |   | 18    |   |
| Eliminations                                            | (115,607 )                          | (108,412 ) | (343,038 )                         | (318,308 ) | 7                                                  |   | 8     |   |
| Total                                                   | \$1,848,529                         | 1,724,418  | \$5,389,906                        | 5,057,834  | 7                                                  | % | 7     | % |
| Operating Revenue: <sup>(1)</sup>                       |                                     |            |                                    |            |                                                    |   |       |   |
| Fleet Management Solutions                              | \$1,026,011                         | 997,903    | \$2,986,792                        | 2,955,465  | 3                                                  | % | 1     | % |
| Dedicated Transportation Solutions                      | 197,917                             | 196,648    | 591,045                            | 581,213    | 1                                                  |   | 2     |   |
| Supply Chain Solutions                                  | 376,429                             | 345,453    | 1,096,899                          | 999,427    | 9                                                  |   | 10    |   |
| Eliminations                                            | (74,904 )                           | (71,711 )  | (220,968 )                         | (212,086 ) | 4                                                  |   | 4     |   |
| Total                                                   | \$1,525,453                         | 1,468,293  | \$4,453,768                        | 4,324,019  | 4                                                  | % | 3     | % |
| EBT:                                                    |                                     |            |                                    |            |                                                    |   |       |   |
| Fleet Management Solutions                              | \$100,693                           | 112,507    | \$220,973                          | 306,554    | (11)%                                              |   | (28)% |   |
| Dedicated Transportation Solutions                      | 13,770                              | 17,584     | 39,892                             | 48,300     | (22)                                               |   | (17)  |   |
| Supply Chain Solutions                                  | 22,052                              | 30,956     | 75,359                             | 79,105     | (29)                                               |   | (5)   |   |
| Eliminations                                            | (14,464 )                           | (12,606 )  | (38,053 )                          | (37,116 )  | 15                                                 |   | 3     |   |
|                                                         | 122,051                             | 148,441    | 298,171                            | 396,843    | (18)                                               |   | (25)  |   |
| Unallocated Central Support Services                    | (11,041 )                           | (9,275 )   | (32,965 )                          | (29,960 )  | 19                                                 |   | 10    |   |
| Non-operating pension costs                             | (6,958 )                            | (7,468 )   | (20,875 )                          | (22,048 )  | (7)                                                |   | (5)   |   |
| Restructuring and other items, net                      | (9,709 )                            | —          | (9,340 )                           | (7,650 )   | NM                                                 |   | NM    |   |
| Earnings from continuing operations before income taxes | \$94,343                            | 131,698    | \$234,991                          | 337,185    | (28)%                                              |   | (30)% |   |

Non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section of this MD&A for a (1) reconciliation of total revenue to operating revenue, and segment total revenue to segment operating revenue for FMS, DTS and SCS, as well as the reasons why management believes these measures are important to investors.

As part of management's evaluation of segment operating performance, we define the primary measurement of our segment financial performance as "Earnings Before Taxes" (EBT) from continuing operations, which includes an allocation of Central Support Services (CSS), and excludes non-operating pension costs and restructuring and other items, net discussed in Note 16, "Segment Reporting," in the Notes to Consolidated Condensed Financial Statements. CSS represents those costs incurred to support all segments, including human resources, finance, corporate services and public affairs, information technology, health and safety, legal, marketing and corporate communications.

The objective of the EBT measurement is to provide clarity on the profitability of each segment and, ultimately, to hold leadership of each segment accountable for their allocated share of CSS costs. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented. Certain costs are not attributable to any segment and remain

unallocated in CSS, including costs for investor relations, public affairs and certain executive compensation.

Inter-segment revenue and EBT are accounted for at rates similar to those executed with third parties. EBT related to inter-segment equipment and services billed to DTS and SCS customers (equipment contribution) are included in both FMS and the segment that served the customer and then eliminated (presented as “Eliminations” in the table above). Prior year amounts have been reclassified to conform to the current period presentation.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table sets forth equipment contribution included in EBT for our DTS and SCS segments:

|                                    | Three months ended September 30, |        | Nine months ended September 30, |        | Change 2017/2016 |             |
|------------------------------------|----------------------------------|--------|---------------------------------|--------|------------------|-------------|
|                                    | 2017                             | 2016   | 2017                            | 2016   | Three Months     | Nine Months |
| (Dollars in thousands)             |                                  |        |                                 |        |                  |             |
| Equipment Contribution:            |                                  |        |                                 |        |                  |             |
| Dedicated Transportation Solutions | \$8,320                          | 8,047  | \$22,532                        | 24,214 | 3 %              | (7 %) %     |
| Supply Chain Solutions             | 6,144                            | 4,559  | 15,521                          | 12,902 | 35               | 20          |
| Total <sup>(1)</sup>               | \$14,464                         | 12,606 | \$38,053                        | 37,116 | 15 %             | 3 %         |

(1) Total amount is included in FMS EBT.

DTS equipment contribution increased slightly in the third quarter and decreased in the nine months ended September 30, 2017. The decrease in the nine months ended is primarily driven by higher maintenance costs on an older vehicle fleet used in DTS operations. The increase in SCS equipment contribution in the third quarter and in the nine months ended is primarily driven by increased volumes.

The following table sets forth items excluded from our segment EBT measure and their classification within our Consolidated Condensed Statements of Earnings:

|                                                     |                             | Three months ended September 30, |          | Nine months ended September 30, |           |
|-----------------------------------------------------|-----------------------------|----------------------------------|----------|---------------------------------|-----------|
| Description                                         | Classification              | 2017                             | 2016     | 2017                            | 2016      |
| (In thousands)                                      |                             |                                  |          |                                 |           |
| Non-operating pension costs <sup>(1)</sup>          | Non-operating pension costs | \$(6,958 )                       | (7,468 ) | \$(20,875 )                     | (22,048 ) |
| Pension settlement charge <sup>(2)</sup>            | SG&A                        | (5,454 )                         | —        | (5,454 )                        | —         |
| Fees related to cost-savings program <sup>(3)</sup> | SG&A                        | (4,255 )                         | —        | (4,255 )                        | —         |
| Operating tax adjustment <sup>(3)</sup>             | SG&A                        | —                                | —        | (2,205 )                        | —         |
| Restructuring <sup>(3)</sup>                        | Miscellaneous income, net   | —                                | —        | 2,574                           | —         |
| Pension-related adjustments <sup>(2)</sup>          | Non-operating pension costs | —                                | —        | —                               | (7,650 )  |
|                                                     |                             | \$(16,667 )                      | (7,468 ) | \$(30,215 )                     | (29,698 ) |

(1) See Note 16, "Segment Reporting," in the Notes to Consolidated Condensed Financial Statements for a discussion of adjustments.

(2) See Note 12, "Employee Benefit Plans," in the Notes to Consolidated Condensed Financial Statements for a discussion of adjustments.

(3) See Note 13, "Other Items Impacting Comparability," in the Notes to Consolidated Condensed Financial Statements for a discussion of adjustments.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

## Fleet Management Solutions

|                                                        | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |               | Change<br>2017/2016 |              |                |   |
|--------------------------------------------------------|-------------------------------------|-------------|------------------------------------|---------------|---------------------|--------------|----------------|---|
|                                                        | 2017                                | 2016        | 2017                               | 2016          | Three<br>Months     |              | Nine<br>Months |   |
|                                                        | (Dollars in thousands)              |             |                                    |               |                     |              |                |   |
| ChoiceLease                                            | \$673,882                           | 649,208     | \$1,992,656                        | 1,918,418     | 4                   | %            | 4              | % |
| SelectCare                                             | 116,986                             | 113,093     | 347,979                            | 341,350       | 3                   |              | 2              |   |
| Commercial Rental                                      | 216,015                             | 216,592     | 589,353                            | 636,028       | —                   |              | (7             | ) |
| Other                                                  | 19,128                              | 19,010      | 56,804                             | 59,669        | 1                   |              | (5             | ) |
| Fuel services revenue                                  | 169,787                             | 157,108     | 505,055                            | 448,987       | 8                   |              | 12             |   |
| FMS total revenue <sup>(1)</sup>                       | \$1,195,798                         | 1,155,011   | \$3,491,847                        | 3,404,452     | 4                   | %            | 3              | % |
| <br>FMS operating revenue <sup>(2)</sup>               | <br>\$1,026,011                     | <br>997,903 | <br>\$2,986,792                    | <br>2,955,465 | <br>3               |              | <br>1          |   |
| FMS EBT                                                | \$100,693                           | 112,507     | \$220,973                          | 306,554       | (11)%               |              | (28)%          |   |
| FMS EBT as a % of FMS total revenue                    | 8.4                                 | % 9.7       | % 6.3                              | % 9.0         | %                   | (130)<br>bps | (270)<br>bps   |   |
| FMS EBT as a % of FMS operating revenue <sup>(2)</sup> | 9.8                                 | % 11.3      | % 7.4                              | % 10.4        | %                   | (150)<br>bps | (300)<br>bps   |   |

(1) Includes intercompany fuel sales from FMS to DTS and SCS.

Non-GAAP financial measures. Reconciliations of FMS total revenue to FMS operating revenue, FMS EBT as a % of FMS total revenue to FMS EBT as a % of FMS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the "Non-GAAP Financial Measures" section of this MD&A.

The following table summarizes the components of the change in FMS revenue on a percentage basis versus the prior year:

|                                     | Three months<br>ended<br>September 30,<br>2017 |                             |  | Nine months<br>ended<br>September 30,<br>2017 |                             |   |
|-------------------------------------|------------------------------------------------|-----------------------------|--|-----------------------------------------------|-----------------------------|---|
|                                     | Total                                          | Operating<br><sup>(1)</sup> |  | Total                                         | Operating<br><sup>(1)</sup> |   |
| Organic, including price and volume | 3 %                                            | 3 %                         |  | 2 %                                           | 2 %                         |   |
| Fuel                                | 1                                              | —                           |  | 2                                             | —                           |   |
| Foreign exchange                    | —                                              | —                           |  | (1)                                           | (1                          | ) |
| Net increase                        | 4 %                                            | 3 %                         |  | 3 %                                           | 1 %                         |   |

Non-GAAP financial measure. A reconciliation of FMS total revenue to FMS operating revenue as well as the (1) reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

FMS total revenue increased to \$1.20 billion in the third quarter of 2017, due to higher FMS operating revenue (a non-GAAP measure excluding fuel) and fuel services revenue. FMS total revenue increased to \$3.49 billion in the nine months ended September 30, 2017, due to higher fuel services revenue and FMS operating revenue, partially offset by negative impacts from foreign exchange. FMS operating revenue grew in both periods as a result of organic growth, primarily in the ChoiceLease product line. In the nine months ended September 30, 2017, FMS operating revenue growth was partially offset by lower commercial rental revenue and negative impacts from foreign exchange. Foreign exchange negatively impacted both total revenue and operating revenue growth by 100 basis points in the nine months ended September 30, 2017.

ChoiceLease revenue increased 4% in both the third quarter and the nine months ended September 30, 2017, reflecting a larger average fleet size and higher prices on replacement vehicles. Foreign exchange negatively impacted ChoiceLease revenue growth by 100 basis points in the nine months ended September 30, 2017. We expect favorable ChoiceLease revenue comparisons to continue through the end of the year based on sales activity. SelectCare revenue increased 3% in the third quarter and 2% in the nine months ended September 30, 2017, due to new business and increased volumes, partially offset by negative impacts from foreign exchange year-to-date. Commercial rental revenue was unchanged in the third quarter and decreased 7% in the nine months ended September 30, 2017, due to lower demand. We expect favorable commercial rental revenue comparisons in the fourth quarter given the current rental demand environment.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table provides commercial rental statistics on our global fleet:

|                                                                     | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change<br>2017/2016 |                |
|---------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
|                                                                     | 2017                                | 2016    | 2017                               | 2016    | Three<br>Months     | Nine<br>Months |
|                                                                     | (Dollars in thousands)              |         |                                    |         |                     |                |
| Rental revenue from non-lease customers                             | \$ 138,887                          | 141,836 | \$ 372,853                         | 397,305 | (2)%                | (6 )%          |
| Rental revenue from lease customers <sup>(1)</sup>                  | \$ 77,128                           | 74,756  | \$ 216,500                         | 238,723 | 3 %                 | (9 )%          |
| Average commercial rental power fleet size — in service<br>(2), (3) | 30,100                              | 30,900  | 29,600                             | 31,700  | (3)%                | (7 )%          |
| Commercial rental utilization — power fleet <sup>(3)</sup>          | 78.0                                | % 76.7  | % 73.7                             | % 73.9  | % 130<br>bps        | (20) bps       |

(1) Represents revenue from rental vehicles provided to our existing ChoiceLease customers, generally in place of a lease vehicle.

(2) Number of units rounded to nearest hundred and calculated using quarterly average unit counts.

(3) Excluding trailers.

FMS EBT decreased 11% in the third quarter of 2017, reflecting impacts to ChoiceLease and commercial rental gross margin from accelerated depreciation of \$4 million on vehicles expected to be made available for sale through June 2018, and more normalized maintenance spending associated with vehicles being prepared for sale. FMS EBT was also impacted by higher overhead spending due to the timing of incentive compensation and higher sales and marketing expense. These items were partially offset by improved performance across all product lines. Commercial rental performance improved due to higher pricing and a 130 basis point improvement in utilization, reflecting fleet right-sizing actions taken earlier in the year. Used vehicle results improved modestly due to lower fair market value write-downs on vehicles held for sale, partially offset by lower proceeds per unit.

FMS EBT decreased 28% in the nine months ended September 30, 2017, due to lower used vehicle sales and commercial rental results, as well as \$21 million of accelerated depreciation on vehicles expected to be made available for sale through June 2018 and higher maintenance costs, partially offset by improved SelectCare results. Used vehicle sales results decreased year-to-date due to lower pricing, which resulted in lower gains on sales and greater fair market value write-downs on vehicles held for sale. Commercial rental results declined year-to-date from lower demand. ChoiceLease and commercial rental results were negatively impacted by \$1 million of higher depreciation in the third quarter and \$3 million in the nine months ended September 30, 2017, due to residual value changes implemented January 1, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Our global fleet of revenue earning equipment and SelectCare vehicles including vehicles under on-demand maintenance is summarized as follows (number of units rounded to the nearest hundred):

|                                                             | September 30,<br>2017 | December 31,<br>2016 | September 30,<br>2016 | Change             |                    |                    |                    |
|-------------------------------------------------------------|-----------------------|----------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|
|                                                             |                       |                      |                       | Sept. 2017<br>2016 | Sept. 2017<br>2016 | Sept. 2017<br>2016 | Sept. 2017<br>2016 |
| End of period vehicle count                                 |                       |                      |                       |                    |                    |                    |                    |
| By type:                                                    |                       |                      |                       |                    |                    |                    |                    |
| Trucks <sup>(1)</sup>                                       | 75,700                | 73,300               | 73,500                | 3                  | %                  | 3                  | %                  |
| Tractors <sup>(2)</sup>                                     | 65,600                | 67,900               | 68,600                | (3)                | )                  | (4)                | )                  |
| Trailers <sup>(3), (4)</sup>                                | 42,200                | 42,800               | 42,300                | (1)                | )                  | —                  |                    |
| Other                                                       | 1,200                 | 1,100                | 1,200                 | 9                  |                    | —                  |                    |
| Total                                                       | 184,700               | 185,100              | 185,600               | —                  | %                  | —                  | %                  |
| By ownership:                                               |                       |                      |                       |                    |                    |                    |                    |
| Owned                                                       | 183,400               | 183,700              | 184,100               | —                  | %                  | —                  | %                  |
| Leased                                                      | 1,300                 | 1,400                | 1,500                 | (7)                | )                  | (13)               | )                  |
| Total                                                       | 184,700               | 185,100              | 185,600               | —                  | %                  | —                  | %                  |
| By product line: <sup>(4)</sup>                             |                       |                      |                       |                    |                    |                    |                    |
| ChoiceLease                                                 | 137,300               | 136,500              | 136,600               | 1                  | %                  | 1                  | %                  |
| Commercial rental                                           | 37,800                | 37,800               | 38,000                | —                  |                    | (1)                | )                  |
| Service vehicles and other                                  | 3,300                 | 3,300                | 3,500                 | —                  |                    | (6)                | )                  |
| Active units                                                | 178,400               | 177,600              | 178,100               | —                  |                    | —                  |                    |
| Held for sale                                               | 6,300                 | 7,500                | 7,500                 | (16)               | )                  | (16)               | )                  |
| Total                                                       | 184,700               | 185,100              | 185,600               | —                  | %                  | —                  | %                  |
| Customer vehicles under SelectCare contracts                | 54,400                | 49,000               | 49,300                | 11                 | %                  | 10                 | %                  |
| Quarterly average vehicle count                             |                       |                      |                       |                    |                    |                    |                    |
| By product line:                                            |                       |                      |                       |                    |                    |                    |                    |
| ChoiceLease                                                 | 137,200               | 136,500              | 135,100               | 1                  | %                  | 2                  | %                  |
| Commercial rental                                           | 37,600                | 37,800               | 38,300                | (1)                | )                  | (2)                | )                  |
| Service vehicles and other                                  | 3,300                 | 3,400                | 3,300                 | (3)                | )                  | —                  |                    |
| Active units                                                | 178,100               | 177,700              | 176,700               | —                  |                    | 1                  |                    |
| Held for sale                                               | 6,900                 | 7,500                | 8,700                 | (8)                | )                  | (21)               | )                  |
| Total                                                       | 185,000               | 185,200              | 185,400               | —                  | %                  | —                  | %                  |
| Customer vehicles under SelectCare contracts                | 52,800                | 49,200               | 49,600                | 7                  | %                  | 6                  | %                  |
| Customer vehicles under SelectCare on-demand <sup>(5)</sup> | 8,700                 | 7,800                | 8,000                 | 12                 | %                  | 9                  | %                  |
| Total vehicles serviced                                     | 246,500               | 242,200              | 243,000               | 2                  | %                  | 1                  | %                  |
| Year-to-date average vehicle count                          |                       |                      |                       |                    |                    |                    |                    |
| By product line:                                            |                       |                      |                       |                    |                    |                    |                    |

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|                                                             |         |         |         |      |    |      |    |
|-------------------------------------------------------------|---------|---------|---------|------|----|------|----|
| ChoiceLease                                                 | 137,400 | 134,400 | 133,800 | 2    | %  | 3    | %  |
| Commercial rental                                           | 37,500  | 39,200  | 39,600  | (4)  | )  | (5)  | )  |
| Service vehicles and other                                  | 3,400   | 3,400   | 3,400   | —    |    | —    |    |
| Active units                                                | 178,300 | 177,000 | 176,800 | 1    |    | 1    |    |
| Held for sale                                               | 6,900   | 8,400   | 8,600   | (18) |    | (20) | )  |
| Total                                                       | 185,200 | 185,400 | 185,400 | —    | %  | —    | %  |
| <hr/>                                                       |         |         |         |      |    |      |    |
| Customer vehicles under SelectCare contracts <sup>(5)</sup> | 51,300  | 49,200  | 49,000  | 4    | %  | 5    | %  |
| Customer vehicles under SelectCare on-demand <sup>(6)</sup> | 20,600  | 21,000  | 22,700  | (2)  | )% | (9)  | )% |
| Total vehicles serviced                                     | 257,100 | 255,600 | 257,100 | 1    | %  | —    | %  |

(1) Generally comprised of Class 1 through Class 7 type vehicles with a Gross Vehicle Weight (GVW) up to 33,000 pounds.

(2) Generally comprised of over the road on highway tractors and are primarily comprised of Class 8 type vehicles with a GVW of over 33,000 pounds.

(3) Generally comprised of dry, flatbed and refrigerated type trailers.

Includes 4,800 UK trailers (3,000 ChoiceLease and 1,800 commercial rental), 5,300 UK trailers (3,300

(4) ChoiceLease and 2,000 commercial rental) and 5,400 UK trailers (3,500 ChoiceLease and 1,900 commercial rental) as of September 30, 2017, December 31, 2016, and September 30, 2016, respectively.

Comprised of the number of unique vehicles serviced under on-demand maintenance agreements for the quarterly (5) and year-to-date periods. This does not represent averages for the periods. Vehicles included in the count may have been serviced more than one time during the respective period.

Comprised of the number of unique vehicles serviced under on-demand maintenance agreements for the quarterly (6) periods. This does not represent averages for the periods. Vehicles included in the count may have been serviced more than one time during the respective period.

Note: Quarterly and year-to-date amounts were computed using a 6-point and 18-point average, respectively, based on monthly information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

The following table provides a breakdown of our non-revenue earning equipment included in our global fleet count (number of units rounded to nearest hundred):

|                                  | September 30,<br>2017 | December 31,<br>2016 | September 30,<br>2016 | Change              |                     |                     |                     |
|----------------------------------|-----------------------|----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
|                                  |                       |                      |                       | Sept. 2017/<br>2016 | Sept. 2017/<br>2016 | Sept. 2017/<br>2016 | Sept. 2017/<br>2016 |
| Not yet earning revenue (NYE)    | 2,100                 | 1,700                | 1,900                 | 24                  | %                   | 11                  | %                   |
| No longer earning revenue (NLE): |                       |                      |                       |                     |                     |                     |                     |
| Units held for sale              | 6,300                 | 7,500                | 7,500                 | (16)                | )                   | (16)                | )                   |
| Other NLE units                  | 3,900                 | 4,400                | 5,000                 | (11)                | )                   | (22)                | )                   |
| Total                            | 12,300                | 13,600               | 14,400                | (10)                | %                   | (15)                | %                   |

NYE units represent new vehicles on hand that are being prepared for deployment to a lease customer or into the rental fleet. Preparations include activities such as adding lift gates, paint, decals, cargo area and refrigeration equipment. NLE units represent vehicles held for sale and vehicles for which no revenue has been earned in the previous 30 days. Accordingly, these vehicles may be temporarily out of service, being prepared for sale or awaiting redeployment. NLE units decreased compared to September 30, 2016, reflecting lower used vehicle inventories, which are at the midpoint of our target range, and a lower number of units being prepared for sale. We expect NLE levels to decline through the end of the year.

Dedicated Transportation Solutions

|                                                        | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change    |              |             |
|--------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|-----------|--------------|-------------|
|                                                        | 2017                                | 2016    | 2017                               | 2016    | 2017/2016 | Three Months | Nine Months |
|                                                        | (Dollars in thousands)              |         |                                    |         |           |              |             |
| DTS total revenue                                      | \$272,334                           | 260,921 | \$811,620                          | 764,025 | 4         | %            | 6 %         |
| DTS operating revenue <sup>(1)</sup>                   | \$197,917                           | 196,648 | \$591,045                          | 581,213 | 1         | %            | 2 %         |
| DTS EBT                                                | \$13,770                            | 17,584  | \$39,892                           | 48,300  | (22)      | %            | (17) %      |
| DTS EBT as a % of DTS total revenue                    | 5.1                                 | % 6.7   | % 4.9                              | % 6.3   | (160)     | bps          | (140) bps   |
| DTS EBT as a % of DTS operating revenue <sup>(1)</sup> | 7.0                                 | % 8.9   | % 6.7                              | % 8.3   | (190)     | bps          | (160) bps   |
| Memo:                                                  |                                     |         |                                    |         |           |              |             |
| Average fleet                                          | 8,200                               | 8,300   | 8,200                              | 8,200   | (1)       | %            | — %         |

Non-GAAP financial measures. Reconciliations of DTS total revenue to DTS operating revenue, DTS EBT as a % of DTS total revenue to DTS EBT as a % of DTS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the "Non-GAAP Financial Measures" section of this MD&A.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table summarizes the components of the change in DTS revenue on a percentage basis versus the prior year:

|                                     | Three months ended<br>September 30,<br>2017 |                  | Nine months ended<br>September 30,<br>2017 |                  |
|-------------------------------------|---------------------------------------------|------------------|--------------------------------------------|------------------|
|                                     | Total                                       | Operating<br>(1) | Total                                      | Operating<br>(1) |
| Organic, including price and volume | 3 %                                         | 1 %              | 5 %                                        | 2 %              |
| Fuel                                | 1                                           | —                | 1                                          | —                |
| Net increase                        | 4 %                                         | 1 %              | 6 %                                        | 2 %              |

Non-GAAP financial measure. A reconciliation of DTS total revenue to DTS operating revenue, as well as the (1) reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

In the third quarter of 2017, DTS total revenue and operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 4% and 1%, respectively, primarily due to new business, partially offset by one less work day in the quarter. DTS EBT decreased 22% in the third quarter of 2017, primarily due to higher insurance premiums, higher vehicle maintenance costs on certain older model year vehicles and the impact of one less work day.

In the nine months ended September 30, 2017, DTS total and operating revenue increased 6% and 2%, respectively, due to new business and higher pricing. We expect DTS total revenue comparisons for the remainder of the year to be consistent with the prior year and DTS operating revenue comparisons to remain favorable through the end of the year. DTS EBT decreased 17% in the nine months ended September 30, 2017, primarily due to higher maintenance costs on certain older model year vehicles and higher insurance costs during the first half of the year.

## Supply Chain Solutions

|                                      | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |           | Change<br>2017/2016 |                |
|--------------------------------------|-------------------------------------|---------|------------------------------------|-----------|---------------------|----------------|
|                                      | 2017                                | 2016    | 2017                               | 2016      | Three<br>Months     | Nine<br>Months |
|                                      | (Dollars in thousands)              |         |                                    |           |                     |                |
| Automotive                           | \$135,853                           | 140,785 | \$420,113                          | 407,083   | (4 )%               | 3 %            |
| Technology and healthcare            | 68,008                              | 61,425  | 194,561                            | 177,138   | 11                  | 10             |
| CPG and Retail                       | 130,528                             | 110,840 | 365,185                            | 324,814   | 18                  | 12             |
| Industrial and other                 | 42,040                              | 32,403  | 117,040                            | 90,392    | 30                  | 29             |
| Subcontracted transportation         | 101,740                             | 56,089  | 279,326                            | 162,743   | 81                  | 72             |
| Fuel                                 | 17,835                              | 15,356  | 53,252                             | 45,495    | 16                  | 17             |
| SCS total revenue                    | \$496,004                           | 416,898 | \$1,429,477                        | 1,207,665 | 19 %                | 18 %           |
| SCS operating revenue <sup>(1)</sup> | \$376,429                           | 345,453 | \$1,096,899                        | 999,427   | 9 %                 | 10 %           |
| SCS EBT                              | \$22,052                            | 30,956  | \$75,359                           | 79,105    | (29)%               | (5 )%          |

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|                                                        |     |       |       |       |             |           |
|--------------------------------------------------------|-----|-------|-------|-------|-------------|-----------|
| SCS EBT as a % of SCS total revenue                    | 4.4 | % 7.4 | % 5.3 | % 6.6 | % (300) bps | (130) bps |
| SCS EBT as a % of SCS operating revenue <sup>(1)</sup> | 5.9 | % 9.0 | % 6.9 | % 7.9 | % (310) bps | (100) bps |

Memo:

|               |       |       |       |       |     |      |
|---------------|-------|-------|-------|-------|-----|------|
| Average fleet | 7,900 | 7,400 | 7,800 | 7,100 | 7 % | 10 % |
|---------------|-------|-------|-------|-------|-----|------|

(1) Non-GAAP financial measures. Reconciliations of SCS total revenue to SCS operating revenue, SCS EBT as a % of SCS total revenue to SCS EBT as a % of SCS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the “Non-GAAP Financial Measures” section of this MD&A.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table summarizes the components of the change in SCS revenue on a percentage basis versus the prior year:

|                                     | Three months ended September 30, 2017 |                          |  | Nine months ended September 30, 2017 |                          |  |
|-------------------------------------|---------------------------------------|--------------------------|--|--------------------------------------|--------------------------|--|
|                                     | Total                                 | Operating <sup>(1)</sup> |  | Total                                | Operating <sup>(1)</sup> |  |
| Organic, including price and volume | 18 %                                  | 8 %                      |  | 18 %                                 | 10 %                     |  |
| Fuel                                | —                                     | —                        |  | —                                    | —                        |  |
| Foreign exchange                    | 1                                     | 1                        |  | —                                    | —                        |  |
| Net increase                        | 19 %                                  | 9 %                      |  | 18 %                                 | 10 %                     |  |

Non-GAAP financial measure. A reconciliation of SCS total revenue to SCS operating revenue, as well as the (1) reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

In the third quarter of 2017, SCS total revenue increased 19%, and SCS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 9%, primarily reflecting new business. SCS EBT decreased 29% in the third quarter of 2017, primarily related to the performance of two customer accounts, including a particularly challenging start-up. Additionally, results were impacted by higher overhead spending, primarily due to planned investments in information technology and sales.

In the nine months ended September 30, 2017, SCS total revenue increased 18%, reflecting organic growth. SCS operating revenue increased 10% due to new business, increased volumes and higher pricing. We expect SCS total revenue and SCS operating revenue comparisons to remain favorable through the end of the year. SCS EBT decreased 5% in the nine months ended September 30, 2017, primarily related to a particularly challenging start-up in the third quarter, higher costs incurred during the start-up phase of certain new accounts in the first half of the year, as well as planned investments in information technology and sales and higher compensation-related costs.

## Central Support Services

|                                       | Three months ended September 30, |        | Nine months ended September 30, |         | Change 2017/2016 |             |
|---------------------------------------|----------------------------------|--------|---------------------------------|---------|------------------|-------------|
|                                       | 2017                             | 2016   | 2017                            | 2016    | Three Months     | Nine Months |
|                                       | (Dollars in thousands)           |        |                                 |         |                  |             |
| Human resources                       | \$3,778                          | 4,184  | \$12,186                        | 12,968  | (10)%            | (6)%        |
| Finance                               | 14,426                           | 15,143 | 43,604                          | 44,267  | (5)              | (1)         |
| Corporate services and public affairs | 2,618                            | 2,471  | 7,612                           | 7,463   | 6                | 2           |
| Information technology                | 22,265                           | 20,466 | 64,744                          | 60,369  | 9                | 7           |
| Legal and safety                      | 6,246                            | 5,711  | 19,109                          | 17,798  | 9                | 7           |
| Marketing                             | 4,556                            | 4,336  | 13,290                          | 14,220  | 5                | (7)         |
| Other                                 | 8,318                            | 4,911  | 23,597                          | 19,317  | 69               | 22          |
| Total CSS                             | 62,207                           | 57,222 | 184,142                         | 176,402 | 9                | 4           |

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|                                        |           |          |           |           |      |      |
|----------------------------------------|-----------|----------|-----------|-----------|------|------|
| Allocation of CSS to business segments | (51,166 ) | (47,947) | (151,177) | (146,442) | 7    | 3    |
| Unallocated CSS                        | \$11,041  | 9,275    | \$32,965  | 29,960    | 19 % | 10 % |

Total CSS costs increased 9% in the third quarter of 2017, due to higher information technology, compensation-related and professional services costs associated with strategic initiatives. Total CSS costs increased 4% in the nine months ended September 30, 2017, due to higher information technology and professional services costs associated with strategic initiatives. Unallocated CSS increased 19% in the third quarter and 10% in the nine months ended September 30, 2017, driven by higher professional services costs associated with strategic initiatives.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

## FINANCIAL RESOURCES AND LIQUIDITY

## Cash Flows

The following is a summary of our cash flows from continuing operations:

|                                         | Nine months ended<br>September 30, |             |
|-----------------------------------------|------------------------------------|-------------|
|                                         | 2017                               | 2016        |
|                                         | (In thousands)                     |             |
| Net cash (used in) provided by:         |                                    |             |
| Operating activities                    | \$1,166,191                        | 1,185,062   |
| Financing activities                    | (191,255 )                         | (55,554 )   |
| Investing activities                    | (962,191 )                         | (1,108,584) |
| Effect of exchange rates on cash        | (5,226 )                           | (5,567 )    |
| Net change in cash and cash equivalents | \$7,519                            | 15,357      |

Cash provided by operating activities decreased to \$1.17 billion in the nine months ended September 30, 2017, compared with \$1.19 billion in 2016, primarily due to lower earnings adjusted for non-cash items. Cash used in financing activities was \$191 million in the nine months ended September 30, 2017, compared with \$56 million in 2016, due to lower borrowing needs from lower capital spending. Cash used in investing activities decreased to \$962 million in the nine months ended September 30, 2017, compared with \$1.11 billion in 2016, primarily due to lower payments for capital expenditures.

The following table shows our free cash flow computation:

|                                                                      | Nine months ended<br>September 30, |             |
|----------------------------------------------------------------------|------------------------------------|-------------|
|                                                                      | 2017                               | 2016        |
|                                                                      | (In thousands)                     |             |
| Net cash provided by operating activities from continuing operations | \$1,166,191                        | 1,185,062   |
| Sales of revenue earning equipment <sup>(1)</sup>                    | 289,432                            | 331,720     |
| Sales of operating property and equipment <sup>(1)</sup>             | 12,541                             | 6,623       |
| Collections on direct finance leases and other items <sup>(1)</sup>  | 54,227                             | 60,229      |
| Total cash generated <sup>(2)</sup>                                  | 1,522,391                          | 1,583,634   |
| Purchases of property and revenue earning equipment <sup>(1)</sup>   | (1,312,845 )                       | (1,511,359) |
| Free cash flow <sup>(2)</sup>                                        | \$209,546                          | 72,275      |

## Memo:

|                                       |              |             |
|---------------------------------------|--------------|-------------|
| Net cash used in financing activities | \$(191,255 ) | (55,554 )   |
| Net cash used in investing activities | \$(962,191 ) | (1,108,584) |

(1) Included in cash flows from investing activities.

Non-GAAP financial measures. Reconciliations of net cash provided by operating activities to total cash generated (2) and to free cash flow are set forth in this table. Refer to the "Non-GAAP Financial Measures" section of this MD&A for the reasons why management believes these measures are important to investors.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table provides a summary of capital expenditures:

|                                                                               | Nine months ended<br>September 30,<br>2017              2016<br>(In thousands) |           |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------|
| Revenue earning equipment:                                                    |                                                                                |           |
| ChoiceLease                                                                   | \$985,541                                                                      | 1,223,141 |
| Commercial rental                                                             | 295,638                                                                        | 79,204    |
|                                                                               | 1,281,179                                                                      | 1,302,345 |
| Operating property and equipment                                              | 94,850                                                                         | 101,837   |
| Total capital expenditures                                                    | 1,376,029                                                                      | 1,404,182 |
| Changes in accounts payable related to purchases of revenue earning equipment | (63,184)                                                                       | ) 107,177 |
| Cash paid for purchases of property and revenue earning equipment             | \$1,312,845                                                                    | 1,511,359 |

Capital expenditures in the nine months ended September 30, 2017 of \$1.38 billion, were largely unchanged from the prior year, reflecting greater use of redeployed vehicles to fulfill new ChoiceLease contracts. Lower ChoiceLease spending was offset by higher planned investments to refresh our commercial rental fleet. We expect full-year 2017 capital expenditures to be approximately \$1.9 billion. We expect to fund 2017 capital expenditures primarily with internally generated funds and additional debt financing.

#### Financing and Other Funding Transactions

We utilize external capital primarily to support working capital needs and growth in our asset-based product lines. The variety of debt financing alternatives typically available to fund our capital needs include commercial paper, long-term and medium-term public and private debt, asset-backed securities, bank term loans, leasing arrangements and bank credit facilities. Our principal sources of financing are issuances of commercial paper and medium-term public debt.

Our ability to access unsecured debt in the capital markets is impacted by both our short-term and long-term debt ratings. These ratings are intended to provide guidance to investors in determining the credit risk associated with particular Ryder securities based on current information obtained by the rating agencies from us or from other sources. Lower ratings generally result in higher borrowing costs, as well as reduced access to unsecured capital markets. A significant downgrade of our short-term debt ratings would impair our ability to issue commercial paper and likely require us to rely on alternative funding sources. A significant downgrade would not affect our ability to borrow amounts under our revolving credit facility, described below and above in Note 6, "Debt," to Consolidated Condensed Financial Statements, assuming ongoing compliance with the terms and conditions of the credit facility.

Our debt ratings and rating outlooks at September 30, 2017, were as follows:

|                                    | Rating Summary |           |         |
|------------------------------------|----------------|-----------|---------|
|                                    | Short-Term     | Long-Term | Outlook |
| Fitch Ratings                      | F-2            | A-        | Stable  |
| Standard & Poor's Ratings Services | A-2            | BBB+      | Stable  |
| Moody's Investors Service          | P-2            | Baa1      | Stable  |

Cash and cash equivalents totaled \$65 million as of September 30, 2017. As of September 30, 2017, approximately \$29 million was held outside the U.S. and is available to fund operations and other growth of non-U.S. subsidiaries. If we decide to repatriate cash and cash equivalents held outside the U.S., we may be subject to additional U.S. income

taxes and foreign withholding taxes. However, our intent is to permanently reinvest these foreign amounts outside the U.S. and our current plans do not demonstrate a need to repatriate these foreign amounts to fund our U.S. operations.

We believe that our operating cash flows, together with our access to the public unsecured bond market, commercial paper market and other available debt financing, will be adequate to meet our operating, investing and financing needs in the foreseeable future. However, there can be no assurance that unanticipated volatility and disruption in the public unsecured debt market or the commercial paper market would not impair our ability to access these markets on terms commercially acceptable to us or at all. If we cease to have access to public bonds, commercial paper and other sources of unsecured borrowings, we would meet our liquidity needs by drawing upon contractually committed lending agreements as described below and/or by seeking other funding sources.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

As of September 30, 2017, we had the following amounts available to fund operations under the following facilities:

(In millions)

Global revolving credit facility \$664

Trade receivables program \$175

See Note 6, "Debt", in the Notes to Consolidated Condensed Financial Statements for a discussion of these debt facilities.

The following table shows the movements in our debt balance:

|                                                                     | Nine months ended<br>September 30,<br>2017          2016<br>(In thousands) |            |
|---------------------------------------------------------------------|----------------------------------------------------------------------------|------------|
| Debt balance at January 1                                           | \$5,391,274                                                                | 5,502,627  |
| Cash-related changes in debt:                                       |                                                                            |            |
| Net change in commercial paper borrowings                           | 2,153                                                                      | 73,597     |
| Proceeds from issuance of medium-term notes                         | 595,785                                                                    | 298,254    |
| Proceeds from issuance of other debt instruments                    | 277,517                                                                    | —          |
| Retirement of medium term notes                                     | (700,000 )                                                                 | (300,000 ) |
| Other debt repaid                                                   | (238,160 )                                                                 | (40,707 )  |
| Debt issuance costs paid                                            | (1,379 )                                                                   | (622 )     |
|                                                                     | (64,084 )                                                                  | 30,522     |
| Non-cash changes in debt:                                           |                                                                            |            |
| Fair value adjustment on notes subject to hedging                   | (3,168 )                                                                   | 8,960      |
| Addition of capital lease obligations                               | 6,209                                                                      | 948        |
| Changes in foreign currency exchange rates and other non-cash items | 18,995                                                                     | (23,416 )  |
| Total changes in debt                                               | (42,048 )                                                                  | 17,014     |
| Debt balance at September 30                                        | \$5,349,226                                                                | 5,519,641  |

In accordance with our funding philosophy, we attempt to align the aggregate average remaining re-pricing life of our debt with the aggregate average remaining re-pricing life of our assets. We utilize both fixed-rate and variable-rate debt to achieve this alignment and generally target a mix of 20% - 40% variable-rate debt as a percentage of total debt outstanding. The variable-rate portion of our total debt (including notional value of swap agreements) was 30% as of September 30, 2017 and December 31, 2016.

Refer to Note 6, "Debt," in the Notes to Consolidated Condensed Financial Statements for further discussion around the global revolving credit facility, the trade receivables program, the issuance of medium-term notes, asset-backed financing obligations and debt maturities.

Ryder's debt to equity ratios were 246% and 263% as of September 30, 2017 and December 31, 2016, respectively. The debt to equity ratio represents total debt divided by total equity. The Company's target debt to equity ratio is 250% to 300%.

#### Pension Information

The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. We review pension assumptions regularly and may, from time to time, make voluntary contributions to our pension plans, which exceed the amounts required by statute. In 2017, the expected total contributions to our pension plans are approximately \$22 million. During the nine months ended September 30, 2017, we contributed \$10.6 million to our pension plans. Changes in interest rates and the market value of the securities held by the plans during 2017 could materially change, positively or negatively, the funded status of the plans and affect the level of pension expense and contributions in 2017 and beyond. See Note 12, "Employee Benefit Plans," in the Notes to Consolidated Condensed Financial Statements for additional information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Share Repurchases and Cash Dividends

See Note 8, "Share Repurchase Programs," in the Notes to Consolidated Condensed Financial Statements for a discussion of share repurchases.

In October 2017, our Board of Directors declared a quarterly cash dividend of \$0.46 per common share of common stock.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Condensed Financial Statements for a discussion of recent accounting pronouncements.

NON-GAAP FINANCIAL MEASURES

This Quarterly Report on Form 10-Q includes information extracted from consolidated condensed financial information but not required by generally accepted accounting principles in the United States of America (U.S. GAAP) to be presented in the financial statements. Certain elements of this information are considered "non-GAAP financial measures" as defined by SEC rules. Non-GAAP financial measures should be considered in addition to, but not as a substitute for or superior to, other measures of financial performance or liquidity prepared in accordance with U.S. GAAP. Also, our non-GAAP financial measures may not be comparable to financial measures used by other companies. We provide a reconciliation of each of these non-GAAP financial measures to the most comparable U.S. GAAP measure in this non-GAAP financial measures section. We also provide the reasons why management believes each non-GAAP financial measure is useful to investors in this section.

Specifically, we refer to the following non-GAAP financial measures in this Form 10-Q:

| Non-GAAP Financial Measure              | Comparable U.S. GAAP Measure          |
|-----------------------------------------|---------------------------------------|
| Operating Revenue Measures:             |                                       |
| Operating Revenue                       | Total Revenue                         |
| FMS Operating Revenue                   | FMS Total Revenue                     |
| DTS Operating Revenue                   | DTS Total Revenue                     |
| SCS Operating Revenue                   | SCS Total Revenue                     |
| FMS EBT as a % of FMS Operating Revenue | FMS EBT as a % of FMS Total Revenue   |
| DTS EBT as a % of DTS Operating Revenue | DTS EBT as a % of DTS Total Revenue   |
| SCS EBT as a % of SCS Operating Revenue | SCS EBT as a % of SCS Total Revenue   |
| Comparable Earnings Measures:           |                                       |
| Comparable Earnings Before Tax          | Earnings Before Tax                   |
| Comparable Earnings                     | Earnings from Continuing Operations   |
| Comparable EPS                          | EPS from Continuing Operations        |
| Cash Flow Measures:                     |                                       |
| Total Cash Generated and Free Cash Flow | Cash Provided by Operating Activities |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Set forth in the table below is an explanation of each non-GAAP financial measure and why management believes that presentation of each non-GAAP financial measure provides useful information to investors:

Operating Revenue Measures:

|                                         |                   |
|-----------------------------------------|-------------------|
| Operating Revenue                       | Operating         |
| FMS Operating Revenue                   | revenue is        |
| DTS Operating Revenue                   | defined as total  |
| SCS Operating Revenue                   | revenue for       |
| FMS EBT as a % of FMS Operating Revenue | Ryder System,     |
| DTS EBT as a % of DTS Operating Revenue | Inc. or each      |
| SCS EBT as a % of SCS Operating Revenue | business          |
|                                         | segment (FMS,     |
|                                         | DTS and SCS),     |
|                                         | respectively,     |
|                                         | excluding any     |
|                                         | (1) fuel and (2)  |
|                                         | subcontracted     |
|                                         | transportation.   |
|                                         | We believe        |
|                                         | operating         |
|                                         | revenue           |
|                                         | provides useful   |
|                                         | information to    |
|                                         | investors as we   |
|                                         | use it to         |
|                                         | evaluate the      |
|                                         | operating         |
|                                         | performance of    |
|                                         | our core          |
|                                         | businesses and    |
|                                         | as a measure of   |
|                                         | sales activity at |
|                                         | the consolidated  |
|                                         | level for Ryder   |
|                                         | System, Inc., as  |
|                                         | well as for each  |
|                                         | of our business   |
|                                         | segments. We      |
|                                         | also use          |
|                                         | segment EBT as    |
|                                         | a percentage of   |
|                                         | segment           |
|                                         | operating         |
|                                         | revenue for       |
|                                         | each business     |
|                                         | segment for the   |
|                                         | same reason.      |

Note: FMS  
EBT, DTS EBT  
and SCS EBT,  
our primary  
measures of  
segment  
performance,  
are not  
non-GAAP  
measures.

Fuel: We  
exclude FMS,  
DTS and SCS  
fuel from the  
calculation of  
our operating  
revenue  
measures, as  
fuel is an  
ancillary  
service that we  
provide our  
customers,  
which is  
impacted by  
fluctuations in  
market fuel  
prices, and the  
costs are largely  
a pass-through  
to our  
customers,  
resulting in  
minimal  
changes in our  
profitability  
during periods  
of steady  
market fuel  
prices.  
However,  
profitability  
may be  
positively or  
negatively  
impacted by  
rapid changes in  
market fuel  
prices during a  
short period of  
time, as

customer  
pricing for fuel  
services is  
established  
based on  
trailing market  
fuel costs.  
Subcontracted  
transportation:  
We also  
exclude  
subcontracted  
transportation  
from the  
calculation of  
our operating  
revenue  
measures, as  
these services  
are also  
typically a  
pass-through to  
our customers  
and, therefore,  
fluctuations  
result in  
minimal  
changes to our  
profitability.  
While our DTS  
and SCS  
business  
segments  
subcontract  
certain  
transportation  
services to third  
party providers,  
our FMS  
business  
segment does  
not engage in  
subcontracted  
transportation  
and, therefore,  
this item is not  
applicable to  
FMS.

Comparable Earnings Measures:  
Comparable earnings before tax (EBT)  
Comparable Earnings

Comparable  
EBT,

Comparable earnings per diluted common share (EPS) comparable earnings and comparable EPS are defined, respectively, as GAAP EBT, earnings and EPS, all from continuing operations, excluding (1) non-operating pension costs and (2) any other significant items that are not representative of our business operations. We believe these comparable earnings measures provide useful information to investors and allow for better year-over-year comparison of operating performance.

Non-Operating Pension Costs:  
Our comparable earnings measures exclude non-operating pension costs, which include the amortization of net actuarial loss and prior service cost, interest cost and expected return on plan assets components of pension and

postretirement  
benefit costs.  
We exclude  
non-operating  
pension costs  
because we  
consider these  
to be impacted  
by financial  
market  
performance  
and outside the  
operational  
performance of  
our business.  
Other  
Significant  
Items: Our  
comparable  
earnings  
measures also  
exclude other  
significant  
items that are  
not  
representative  
of our business  
operations.  
These other  
significant  
items vary from  
period to period  
and, in some  
periods, there  
may be no such  
significant  
items. In the  
three and nine  
month periods  
ended  
September 30,  
2017, we  
exclude the  
following other  
significant  
items from our  
comparable  
earnings  
measures in this  
Form 10-Q:

(1) Fees related to cost-savings program: In the third quarter of 2017, we recorded consulting fees associated with a cost-savings program.

(2) Pension settlement charge: In the third quarter of 2017, we recorded an estimated pension settlement charge for the exit from a U.S. multi-employer pension plan.

(3) Tax law change - rate increase: In the third quarter of 2017, the state of Illinois enacted changes to their tax system, which increased the provision for income taxes by \$1.8 million.

(4) Restructuring: In the second quarter of 2017, we recorded restructuring credits related to the gains on sale of certain UK facilities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

(5) Operating  
tax adjustment:  
In the first  
quarter of  
2017, we  
recorded a  
one-time  
charge of \$2.2  
million related  
to operating  
tax expenses  
that had not  
been  
recognized in  
prior period  
earnings.

(6)  
Pension-related  
adjustments: In  
the second  
quarter of  
2016, it was  
determined  
that certain  
pension benefit  
improvements  
made in 2009  
were not fully  
reflected in our  
projected  
benefit  
obligation,  
resulting in a  
charge to  
reflect those  
pension  
benefits.  
Calculation of  
comparable tax  
rate: The  
comparable  
provision for  
income taxes is  
computed  
using the same  
methodology  
as the GAAP

provision for  
income taxes.

Income tax  
effects of  
non-GAAP  
adjustments  
are calculated  
based on the  
statutory tax  
rates of the  
jurisdictions to  
which the  
non-GAAP  
adjustments  
relate.

Cash Flow Measures:

|                      |                  |
|----------------------|------------------|
| Total Cash Generated | We consider      |
| Free Cash Flow       | total cash       |
|                      | generated and    |
|                      | free cash flow   |
|                      | to be important  |
|                      | measures of      |
|                      | comparative      |
|                      | operating        |
|                      | performance,     |
|                      | as our principal |
|                      | sources of       |
|                      | operating        |
|                      | liquidity are    |
|                      | cash from        |
|                      | operations and   |
|                      | proceeds from    |
|                      | the sale of      |
|                      | revenue          |
|                      | earning          |
|                      | equipment.       |
|                      | Total Cash       |
|                      | Generated:       |
|                      | Total cash       |
|                      | generated is     |
|                      | defined as the   |
|                      | sum of (1) net   |
|                      | cash provided    |
|                      | by operating     |
|                      | activities, (2)  |
|                      | net cash         |
|                      | provided by      |
|                      | the sale of      |
|                      | revenue          |
|                      | earning          |
|                      | equipment, (3)   |

net cash  
provided by  
the sale of  
operating  
property and  
equipment, (4)  
collections on  
direct finance  
leases and (5)  
other cash  
inflows from  
investing  
activities. We  
believe total  
cash generated  
is an important  
measure of  
total cash  
flows  
generated from  
our ongoing  
business  
activities.  
Free Cash  
Flow: We refer  
to the net  
amount of cash  
generated from  
operating  
activities and  
investing  
activities  
(excluding  
changes in  
restricted cash  
and  
acquisitions)  
from  
continuing  
operations as  
“free cash flow”.  
We calculate  
free cash flow  
as the sum of  
(1) net cash  
provided by  
operating  
activities, (2)  
net cash  
provided by  
the sale of

revenue  
earning  
equipment, (3)  
net cash  
provided by  
the sale of  
operating  
property and  
equipment, (4)  
collections on  
direct finance  
leases and (5)  
other cash  
inflows from  
investing  
activities, less  
(6) purchases  
of property and  
revenue  
earning  
equipment. We  
believe free  
cash flow  
provides  
investors with  
an important  
perspective on  
the cash  
available for  
debt service  
and for  
shareholders,  
after making  
capital  
investments  
required to  
support  
ongoing  
business  
operations.  
Our calculation  
of free cash  
flow may be  
different from  
the calculation  
used by other  
companies  
and, therefore,  
comparability  
may be  
limited.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table provides a reconciliation of U.S. GAAP earnings before taxes (EBT), earnings, and earnings per diluted share (EPS) from continuing operations to comparable EBT, comparable earnings and comparable EPS from continuing operations, which was not provided within the MD&A discussion.

EBT, earnings and diluted EPS from continuing operations in the three and nine months ended September 30, 2017 and 2016, included certain items we do not consider indicative of our business operations and have been excluded from our comparable EBT, comparable earnings and comparable diluted EPS measures. The following table lists a summary of these items, which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Condensed Financial Statements:

|                                      | EBT                                      |         | Earnings  |         | Diluted EPS |      |
|--------------------------------------|------------------------------------------|---------|-----------|---------|-------------|------|
|                                      | 2017                                     | 2016    | 2017      | 2016    | 2017        | 2016 |
| Three months ended September 30,     | (In thousands, except per share amounts) |         |           |         |             |      |
| EBT/Earnings/EPS                     | \$94,343                                 | 131,698 | \$58,913  | 85,138  | \$1.11      | 1.59 |
| Non-operating pension costs          | 6,958                                    | 7,443   | 4,019     | 4,420   | 0.08        | 0.08 |
| Pension settlement charge            | 5,454                                    | —       | 3,304     | —       | 0.06        | —    |
| Fees related to cost-savings program | 4,255                                    | —       | 2,740     | —       | 0.05        | —    |
| Tax law change - rate increase       | —                                        | —       | 1,844     | —       | 0.03        | —    |
| Comparable EBT/ Earnings/ EPS        | \$111,010                                | 139,141 | \$70,820  | 89,558  | \$1.33      | 1.67 |
| Nine months ended September 30,      |                                          |         |           |         |             |      |
| EBT/Earnings/EPS                     | \$234,991                                | 337,185 | \$148,535 | 215,365 | \$2.79      | 4.02 |
| Non-operating pension costs          | 20,875                                   | 22,023  | 12,065    | 12,857  | 0.24        | 0.24 |
| Pension settlement charge            | 5,454                                    | —       | 3,303     | —       | 0.06        | —    |
| Fees related to cost-savings program | 4,255                                    | —       | 2,740     | —       | 0.05        | —    |
| Operating tax adjustment             | 2,205                                    | —       | 1,677     | —       | 0.03        | —    |
| Restructuring                        | (2,574 )                                 | —       | (2,085 )  | —       | (0.04 )     | —    |
| Tax law change - rate increase       | —                                        | —       | 1,844     | —       | 0.03        | —    |
| Pension-related adjustment           | —                                        | 7,650   | —         | 4,817   | —           | 0.09 |
| Comparable EBT/ Earnings/ EPS        | \$265,206                                | 366,858 | \$168,079 | 233,039 | \$3.16      | 4.35 |

The following table provides a reconciliation of the provision for income taxes to the comparable provision for income taxes:

|                                                           | Three months ended September 30, |          | Nine months ended September 30, |           |
|-----------------------------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                                           | 2017                             | 2016     | 2017                            | 2016      |
|                                                           | (Dollars in thousands)           |          |                                 |           |
| Provision for income taxes <sup>(1)</sup>                 | \$(35,430)                       | (46,560) | \$(86,456)                      | (121,820) |
| Income tax effects of non-GAAP adjustments <sup>(1)</sup> | (4,760 )                         | (3,023 ) | (10,671 )                       | (11,999 ) |
| Comparable provision for income taxes <sup>(1)</sup>      | \$(40,190)                       | (49,583) | \$(97,127)                      | (133,819) |

The comparable provision for income taxes is computed using the same methodology as the GAAP provision of (1) income taxes. Income tax effects of non-GAAP adjustments are calculated based on statutory tax rates of the jurisdictions to which the non-GAAP adjustments related.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table provides a numerical reconciliation of net cash provided by operating activities to total cash generated and free cash flow for the nine months ended September 30, 2017:

|                                                                      | Nine months ended<br>September 30, |              |
|----------------------------------------------------------------------|------------------------------------|--------------|
|                                                                      | 2017                               | 2016         |
|                                                                      | (In thousands)                     |              |
| Net cash provided by operating activities from continuing operations | \$1,166,191                        | 1,185,062    |
| Sales of revenue earning equipment <sup>(1)</sup>                    | 289,432                            | 331,720      |
| Sales of operating property and equipment <sup>(1)</sup>             | 12,541                             | 6,623        |
| Collections on direct finance leases and other items <sup>(1)</sup>  | 54,227                             | 60,229       |
| Total cash generated                                                 | 1,522,391                          | 1,583,634    |
| Purchases of property and revenue earning equipment <sup>(1)</sup>   | (1,312,845 )                       | (1,511,359 ) |
| Free cash flow                                                       | \$209,546                          | 72,275       |

## Memo:

|                                                     |               |              |
|-----------------------------------------------------|---------------|--------------|
| Net cash (used in) provided by financing activities | \$ (191,255 ) | (55,554 )    |
| Net cash used in investing activities               | \$ (962,191 ) | (1,108,584 ) |

(1) Included in cash flows from investing activities.

The following table provides a reconciliation of total revenue to operating revenue, which was not provided within the MD&A discussion:

|                              | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                              | 2017                                | 2016       | 2017                               | 2016       |
|                              | (In thousands)                      |            |                                    |            |
| Total revenue                | \$1,848,529                         | 1,724,418  | \$5,389,906                        | 5,057,834  |
| Fuel                         | (175,106 )                          | (162,293 ) | (519,979 )                         | (464,176 ) |
| Subcontracted transportation | (147,970 )                          | (93,832 )  | (416,159 )                         | (269,639 ) |
| Operating revenue            | \$1,525,453                         | 1,468,293  | \$4,453,768                        | 4,324,019  |

The following table provides a reconciliation of FMS total revenue to FMS operating revenue, which was not provided within the MD&A discussion:

|                                     | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|-------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                     | 2017                                | 2016       | 2017                               | 2016       |
|                                     | (In thousands)                      |            |                                    |            |
| FMS total revenue                   | \$1,195,798                         | 1,155,011  | \$3,491,847                        | 3,404,452  |
| Fuel <sup>(1)</sup>                 | (169,787 )                          | (157,108 ) | (505,055 )                         | (448,987 ) |
| FMS operating revenue               | \$1,026,011                         | 997,903    | \$2,986,792                        | 2,955,465  |
| FMS EBT                             | \$100,693                           | 112,507    | \$220,973                          | 306,554    |
| FMS EBT as a % of FMS total revenue | 8.4                                 | % 9.7      | % 6.3                              | % 9.0      |

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|                                         |     |   |      |   |     |   |      |   |
|-----------------------------------------|-----|---|------|---|-----|---|------|---|
| FMS EBT as a % of FMS operating revenue | 9.8 | % | 11.3 | % | 7.4 | % | 10.4 | % |
|-----------------------------------------|-----|---|------|---|-----|---|------|---|

(1) Includes intercompany fuel sales from FMS to DTS and SCS.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

The following table provides a reconciliation of DTS total revenue to DTS operating revenue, which was not provided within the MD&A discussion:

|                                         | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |            |
|-----------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                         | 2017                                | 2016      | 2017                               | 2016       |
|                                         | (In thousands)                      |           |                                    |            |
| DTS total revenue                       | \$272,334                           | 260,921   | \$811,620                          | 764,025    |
| Subcontracted transportation            | (46,230 )                           | (37,743 ) | (136,833 )                         | (106,896 ) |
| Fuel                                    | (28,187 )                           | (26,530 ) | (83,742 )                          | (75,916 )  |
| DTS operating revenue                   | \$197,917                           | 196,648   | \$591,045                          | 581,213    |
| DTS EBT                                 | \$13,770                            | 17,584    | \$39,892                           | 48,300     |
| DTS EBT as a % of DTS total revenue     | 5.1                                 | % 6.7     | % 4.9                              | % 6.3      |
| DTS EBT as a % of DTS operating revenue | 7.0                                 | % 8.9     | % 6.7                              | % 8.3      |

The following table provides a reconciliation of SCS total revenue to SCS operating revenue, which was not provided within the MD&A discussion:

|                                         | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |            |
|-----------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                         | 2017                                | 2016      | 2017                               | 2016       |
|                                         | (In thousands)                      |           |                                    |            |
| SCS total revenue                       | \$496,004                           | 416,898   | \$1,429,477                        | 1,207,665  |
| Subcontracted transportation            | (101,740 )                          | (56,089 ) | (279,326 )                         | (162,743 ) |
| Fuel                                    | (17,835 )                           | (15,356 ) | (53,252 )                          | (45,495 )  |
| SCS operating revenue                   | \$376,429                           | 345,453   | \$1,096,899                        | 999,427    |
| SCS EBT                                 | \$22,052                            | 30,956    | \$75,359                           | 79,105     |
| SCS EBT as a % of SCS total revenue     | 4.4                                 | % 7.4     | % 5.3                              | % 6.6      |
| SCS EBT as a % of SCS operating revenue | 5.9                                 | % 9.0     | % 6.9                              | % 7.9      |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

FORWARD-LOOKING STATEMENTS

Forward-looking statements (within the meaning of the Federal Private Securities Litigation Reform Act of 1995) are statements that relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends concerning matters that are not historical facts. These statements are often preceded by or include the words "believe," "expect," "intend," "estimate," "anticipate," "will," "may," "could," "should" or similar expressions. This Quarterly Report on 10-Q contains forward-looking statements including, but not limited to, statements regarding:

- our expectations in our FMS business segment regarding anticipated ChoiceLease and commercial rental revenue and demand;
- our expectations in our DTS and SCS business segments regarding anticipated total and operating revenue trends and growth rates;
- our expectations of the long-term residual values of revenue earning equipment;
- the anticipated decline in NLE vehicles in inventory through the end of the year;
- our expectations of operating cash flow and capital expenditures through the end of 2017;
- the adequacy of our accounting estimates and reserves for pension expense, compensation expense and employee benefit plan obligations, depreciation and residual value guarantees and income taxes;
- the adequacy of estimates we make in preparing financial statements including our fair value estimates of employee incentive awards under our share-based compensation plans, publicly traded debt and other debt;
- our beliefs regarding the default risk of our direct financing lease receivables;
- our ability to fund all of our operating, investing and financial needs for the foreseeable future through internally generated funds and outside funding sources;
- the anticipated impact of fuel price fluctuations;
- our expectations as to return on pension plan assets, future pension expense and estimated contributions;
- our expectations regarding the scope, anticipated outcomes and the adequacy of our loss provisions with respect to certain claims, proceedings and lawsuits;
- our expectations about the need to repatriate foreign cash to the U.S.;
- our ability to access commercial paper and other available debt financing in the capital markets;
- our expectations regarding the future use and availability of funding sources; and
- the anticipated impact of recent accounting pronouncements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

These statements, as well as other forward-looking statements contained in this Quarterly Report, are based on our current plans and expectations and are subject to risks, uncertainties and assumptions. We caution readers that certain important factors could cause actual results and events to differ significantly from those expressed in any forward-looking statement. These risk factors include, but are not limited to, the following:

Market Conditions:

- Changes in general economic and financial conditions in the U.S. and worldwide leading to decreased demand for our services, lower profit margins, increased levels of bad debt and reduced access to credit
- Decreases in freight demand which would impact both our transactional and variable-based contractual business
- Changes in our customers' operations, financial condition or business environment that may limit their need for, or ability to purchase, our services
- Further decreases in market demand affecting the commercial rental market and used vehicle sales as well as global economic conditions
- Volatility in customer volumes and shifting customer demand in the industries serviced by our SCS business
- Changes in current financial, tax or regulatory requirements that could negatively impact the leasing market

Competition:

- Advances in technology may impact demand for our services or may require increased investments to remain competitive, which may take time and require additional investment and increase costs which our customers may not be willing to accept
- Competition from other service providers, some of which have greater capital resources or lower capital costs, or from our customers, who may choose to provide services themselves
- Continued consolidation in the markets in which we operate which may create large competitors with greater financial resources
- Our inability to maintain current pricing levels due to economic conditions, demand for services, customer acceptance or competition

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Profitability:

- Our inability to obtain adequate profit margins for our services
- Lower than expected sales volumes or customer retention levels
- Decreases in commercial rental fleet utilization and pricing
- Lower than expected demand for, and values of used vehicles
- Loss of key customers in our DTS and SCS business segments
- Our inability to adapt our product offerings to meet changing consumer preferences on a cost-effective basis
  - The inability of our legacy information technology systems to provide timely access to data
- Sudden changes in fuel prices and fuel shortages
- Higher than expected maintenance costs and lower than expected benefits associated with our maintenance initiatives
- Our inability to successfully execute our asset management initiatives, maintain our fleet at normalized levels and right-size our fleet in line with demand
- Our inability to redeploy vehicles and prepare vehicles for sale in a cost-efficient manner
  - Our key assumptions and pricing structure of our DTS and SCS contracts prove to be inaccurate
- Increased unionizing, labor strikes and work stoppages
- Difficulties in attracting and retaining drivers and technicians due to driver and technician shortages, which may result in higher costs to procure drivers and technicians and higher turnover rates affecting our customers
- Our inability to manage our cost structure
- Our inability to limit our exposure for customer claims
- Unfavorable or unanticipated outcomes in legal proceedings or uncertain positions
- Business interruptions or expenditures due to severe weather or natural occurrences
- Inability to react to and quickly adapt to changing market conditions

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - (Continued)

Financing Concerns:

- Higher borrowing costs and possible decreases in available funding sources caused by an adverse change in our debt ratings
- Unanticipated interest rate and currency exchange rate fluctuations
- Negative funding status of our pension plans caused by lower than expected returns on invested assets and unanticipated changes in interest rates
- Withdrawal liability as a result of our participation in multi-employer plans
- Instability in U.S. and worldwide credit markets, resulting in higher borrowing costs and/or reduced access to credit

Accounting Matters:

- Impact of unusual items resulting from ongoing evaluations of business strategies, asset valuations, acquisitions, divestitures and our organizational structure
- Reductions in residual values or useful lives of revenue earning equipment
- Increases in compensation levels, retirement rate and mortality resulting in higher pension expense; regulatory changes affecting pension estimates, accruals and expenses
- Increases in health care costs resulting in higher insurance costs
- Changes in accounting rules, assumptions and accruals
- Impact of actual insurance claim and settlement activity compared to historical loss development factors used to project future development
- Lower than expected operating performance in our FMS Europe reporting unit could affect key assumptions used in our annual goodwill impairment test and result in impairment

Other risks detailed from time to time in our SEC filings including our 2016 Annual Report on Form 10-K.

New risk factors emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. As a result, no assurance can be given as to our future results or achievements. You should not place undue reliance on the forward-looking statements contained herein, which speak only as of the date of this Quarterly Report. We do not intend, or assume any obligation, to update or revise any forward-looking statements contained in this Quarterly Report, whether as a result of new information, future events or otherwise.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to Ryder's exposures to market risks since December 31, 2016. Please refer to the 2016 Annual Report on Form 10-K for a complete discussion of Ryder's exposures to market risks.

## ITEM 4. CONTROLS AND PROCEDURES

## Evaluation of Disclosure Controls and Procedures

As of the end of the third quarter of 2017, we carried out an evaluation, under the supervision and with the participation of management, including Ryder's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Ryder's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the third quarter of 2017, Ryder's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective.

## Changes in Internal Controls over Financial Reporting

During the three months ended September 30, 2017, there were no changes in Ryder's internal control over financial reporting that have materially affected or are reasonably likely to materially affect such internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information with respect to purchases we made of our common stock during the three months ended September 30, 2017:

|                                        | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per<br>Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Programs | Maximum<br>Number of<br>Shares That<br>May<br>Yet Be<br>Purchased<br>Under the<br>Anti-Dilutive<br>Program <sup>(2)</sup> |
|----------------------------------------|-------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| July 1 through July 30, 2017           | 8,758                                                 | \$ 72.82                           | —                                                                                            | 636,128                                                                                                                   |
| August 1 through August 31, 2017       | 105,394                                               | 72.36                              | 105,394                                                                                      | 530,734                                                                                                                   |
| September 1 through September 30, 2017 | 34                                                    | 78.92                              | —                                                                                            | 530,734                                                                                                                   |
| Total                                  | 114,186                                               | \$ 72.40                           | 105,394                                                                                      |                                                                                                                           |

(1) During the three months ended September 30, 2017, we purchased an aggregate of 8,892 shares of our common stock in employee-related transactions. Employee-related transactions may include: (i) shares of common stock withheld as payment for the exercise price of options exercised or to satisfy the employees' tax withholding

liability associated with our share-based compensation programs and (ii) open-market purchases by the trustee of Ryder's deferred compensation plans relating to investments by employees in our stock, one of the investment options available under the plans.

In December 2015, our Board of Directors authorized a new share repurchase program intended to mitigate the dilutive impact of shares issued under our employee stock plans. Under the December 2015 program, management is authorized to repurchase (i) up to 1.5 million shares of common stock, the sum of which will not exceed the number of shares issued to employees under Ryder's employee stock plans from December 1, 2015 to December 9, 2017 plus (ii) 0.5 million shares issued to employees that were not purchased under Ryder's previous share (2) repurchase program. The December 2015 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for Ryder under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2015 program, which allow for share repurchases during Ryder's quarterly blackout periods as set forth in the trading plan.

ITEM 6. EXHIBITS

| Exhibit<br>Number | Description |
|-------------------|-------------|
|-------------------|-------------|

|      |                                                          |
|------|----------------------------------------------------------|
| 12.1 | <u>Calculation of Ratio of Earnings to Fixed Charges</u> |
|------|----------------------------------------------------------|

|      |                                                                                        |
|------|----------------------------------------------------------------------------------------|
| 31.1 | <u>Certification of Robert E. Sanchez pursuant to Rule 13a-14(a) or Rule 15d-14(a)</u> |
|------|----------------------------------------------------------------------------------------|

|      |                                                                                    |
|------|------------------------------------------------------------------------------------|
| 31.2 | <u>Certification of Art A. Garcia pursuant to Rule 13a-14(a) or Rule 15d-14(a)</u> |
|------|------------------------------------------------------------------------------------|

|    |                                                                                                                                     |
|----|-------------------------------------------------------------------------------------------------------------------------------------|
| 32 | <u>Certification of Robert E. Sanchez and Art A. Garcia pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350</u> |
|----|-------------------------------------------------------------------------------------------------------------------------------------|



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RYDER SYSTEM, INC.  
(Registrant)

Date: October 24, 2017 By: /s/ Art A. Garcia  
Art A. Garcia  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: October 24, 2017 /s/ Frank Mullen  
Frank Mullen  
Vice President and Controller  
(Principal Accounting Officer)