

RYDER SYSTEM INC
Form 10-Q
October 26, 2018

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, 2018
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 every Interactive Data File required to be submitted 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 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

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

The number of shares of Ryder System, Inc. Common Stock (\$0.50 par value per share) outstanding at September 30, 2018, was 53,088,113.

RYDER SYSTEM, INC.
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 | | Nine months ended | |
|---|--|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | | |
| Lease and rental revenues | \$895,167 | 823,197 | \$2,577,444 | 2,387,801 |
| Services revenue | 1,106,107 | 888,613 | 3,106,575 | 2,595,141 |
| Fuel services revenue | 156,787 | 129,087 | 466,847 | 382,966 |
| Total revenues | 2,158,061 | 1,840,897 | 6,150,866 | 5,365,908 |
| Cost of lease and rental | 649,407 | 588,626 | 1,904,973 | 1,745,777 |
| Cost of services | 945,851 | 753,838 | 2,639,137 | 2,186,316 |
| Cost of fuel services | 153,420 | 124,562 | 455,874 | 372,016 |
| Other operating expenses | 30,344 | 28,445 | 94,760 | 87,122 |
| Selling, general and administrative expenses | 215,506 | 212,249 | 637,282 | 614,809 |
| Non-operating pension costs | 1,161 | 6,958 | 3,241 | 20,875 |
| Used vehicle sales, net | 3,012 | (2,727) | 16,434 | 11,815 |
| Interest expense | 47,379 | 34,854 | 127,529 | 104,591 |
| Miscellaneous income, net | (4,472) | (4,655) | (10,609) | (15,062) |
| Restructuring and other charges, net | 313 | 4,255 | 19,722 | 1,681 |
| | 2,041,921 | 1,746,405 | 5,888,343 | 5,129,940 |
| Earnings from continuing operations before income taxes | 116,140 | 94,492 | 262,523 | 235,968 |
| Provision for income taxes | 26,629 | 35,452 | 95,561 | 86,997 |
| Earnings from continuing operations | 89,511 | 59,040 | 166,962 | 148,971 |
| Loss from discontinued operations, net of tax | (760) | (290) | (2,448) | (947) |
| Net earnings | \$88,751 | 58,750 | \$164,514 | 148,024 |
| Earnings (loss) per common share — Basic | | | | |
| Continuing operations | \$1.70 | 1.12 | \$3.18 | 2.82 |
| Discontinued operations | (0.01) | (0.01) | (0.05) | (0.02) |
| Net earnings | \$1.69 | 1.12 | \$3.13 | 2.80 |
| Earnings (loss) per common share — Diluted | | | | |
| Continuing operations | \$1.69 | 1.12 | \$3.15 | 2.80 |
| Discontinued operations | (0.01) | (0.01) | (0.05) | (0.02) |
| Net earnings | \$1.68 | 1.11 | \$3.11 | 2.78 |
| Cash dividends declared per common share | \$0.54 | 0.46 | \$1.58 | 1.34 |

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 ended September 30, | | Nine months ended September 30, | |
|---|--|----------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Net earnings | \$88,751 | 58,750 | \$164,514 | 148,024 |
| Other comprehensive income: | | | | |
| Changes in currency translation adjustment and other | 6,554 | 27,648 | (23,198) | 70,991 |
| Amortization of pension and postretirement items | 7,163 | 7,960 | 20,793 | 23,741 |
| Income tax expense related to amortization of pension and postretirement items | (1,897) | (2,812) | (4,771) | (8,324) |
| Amortization of pension and postretirement items, net of tax | 5,266 | 5,148 | 16,022 | 15,417 |
| Change in net actuarial loss and prior service cost | — | 870 | (1,211) | 890 |
| Income tax benefit related to change in net actuarial loss and prior service cost | — | (260) | 308 | (80) |
| Change in net actuarial loss and prior service cost, net of taxes | — | 610 | (903) | 810 |
| Other comprehensive income (loss), net of taxes | 11,820 | 33,406 | (8,079) | 87,218 |
| Comprehensive income | \$100,571 | 92,156 | \$156,435 | 235,242 |
| See accompanying notes to consolidated condensed financial statements. | | | | |

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

| | September 30, 2018 | December 31, 2017 |
|---|--|----------------------|
| | (Dollars in thousands, except share amounts) | |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 60,688 | 78,348 |
| Receivables, net of allowance of \$18,106 and \$13,847, respectively | 1,156,674 | 1,010,908 |
| Inventories | 78,119 | 73,543 |
| Prepaid expenses and other current assets | 169,175 | 160,094 |
| Total current assets | 1,464,656 | 1,322,893 |
| Revenue earning equipment, net | 9,186,827 | 8,355,262 |
| Operating property and equipment, net of accumulated depreciation of \$1,244,927 and \$1,192,377, respectively | 826,183 | 776,704 |
| Goodwill | 493,169 | 395,504 |
| Intangible assets, net of accumulated amortization of \$63,016 and \$57,420, respectively | 61,221 | 42,930 |
| Direct financing leases and other assets | 652,249 | 570,706 |
| Total assets | \$ 12,684,305 | 11,463,999 |
| Liabilities and shareholders' equity: | | |
| Current liabilities: | | |
| Short-term debt and current portion of long-term debt | \$ 859,530 | 826,069 |
| Accounts payable | 704,613 | 599,303 |
| Accrued expenses and other current liabilities | 618,675 | 589,603 |
| Total current liabilities | 2,182,818 | 2,014,975 |
| Long-term debt | 5,423,580 | 4,583,582 |
| Other non-current liabilities | 828,149 | 812,642 |
| Deferred income taxes | 1,331,360 | 1,211,129 |
| Total liabilities | 9,765,907 | 8,622,328 |
| Shareholders' equity: | | |
| Preferred stock, no par value per share — authorized, 3,800,917; none outstanding, September 30, 2018 or December 31, 2017 | — | — |
| Common stock, \$0.50 par value per share — authorized, 400,000,000; outstanding, September 30, 2018 — 53,088,113 December 31, 2017 — 52,955,314 | 26,544 | 26,478 |
| Additional paid-in capital | 1,075,412 | 1,051,017 |
| Retained earnings | 2,632,589 | 2,471,677 |
| Accumulated other comprehensive loss | (816,147 |) (707,501) |
| Total shareholders' equity | 2,918,398 | 2,841,671 |
| Total liabilities and shareholders' equity | \$ 12,684,305 | 11,463,999 |
| See accompanying notes to consolidated condensed financial statements. | | |

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

| | Nine months ended September 30, | |
|---|------------------------------------|--------------|
| | 2018 | 2017 |
| | (In thousands) | |
| Cash flows from operating activities from continuing operations: | | |
| Net earnings | \$164,514 | 148,024 |
| Less: Loss from discontinued operations, net of tax | (2,448) | (947) |
| Earnings from continuing operations | 166,962 | 148,971 |
| Depreciation expense | 1,028,491 | 932,772 |
| Goodwill impairment charge | 15,513 | — |
| Used vehicle sales, net | 16,434 | 11,815 |
| Amortization expense and other non-cash charges, net | 21,202 | 25,152 |
| Non-operating pension costs and share-based compensation expense | 22,072 | 35,509 |
| Deferred income tax expense | 103,082 | 75,820 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Receivables | (126,848) | (145,090) |
| Inventories | (4,389) | (985) |
| Prepaid expenses and other assets | (27,163) | 255 |
| Accounts payable | 3,754 | 40,734 |
| Accrued expenses and other non-current liabilities | (6,737) | 41,238 |
| Net cash provided by operating activities from continuing operations | 1,212,373 | 1,166,191 |
| Cash flows from financing activities from continuing operations: | | |
| Net change in commercial paper borrowings and revolving credit facilities | (113,666) | 2,153 |
| Debt proceeds | 1,467,528 | 873,302 |
| Debt repaid | (466,081) | (938,160) |
| Dividends on common stock | (83,506) | (71,564) |
| Common stock issued | 13,023 | 10,387 |
| Common stock repurchased | (27,680) | (65,856) |
| Debt issuance costs and other items | (4,763) | (1,517) |
| Net cash provided by (used in) financing activities | 784,855 | (191,255) |
| Cash flows from investing activities from continuing operations: | | |
| Purchases of property and revenue earning equipment | (2,200,006) | (1,312,845) |
| Sales of revenue earning equipment | 279,751 | 289,432 |
| Sales of operating property and equipment | 11,869 | 12,541 |
| Acquisitions, net of cash acquired | (167,372) | (7,240) |
| Collections on direct finance leases and other items | 57,568 | 54,227 |
| Net cash used in investing activities | (2,018,190) | (963,885) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 1,464 | (5,226) |
| (Decrease) increase in cash, cash equivalents, and restricted cash from continuing operations | (19,498) | 5,825 |

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| | | |
|--|-----------|----------|
| Decrease in cash, cash equivalents, and restricted cash from discontinued operations | (272) | (1,064) |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (19,770) | 4,761 |
| Cash, cash equivalents, and restricted cash at January 1 | 83,022 | 62,639 |
| Cash, cash equivalents, and restricted cash at September 30 | \$63,252 | 67,400 |

See accompanying notes to consolidated condensed financial statements.

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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 2017 Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and notes thereto except for the update to our revenue recognition significant accounting policies discussed below. 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.

Update to Significant Accounting Policies

Our significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to our accounting policies as a result of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) are discussed below:

Revenue Recognition

We recognize revenue upon the transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and amounts collected from customers for taxes, such as sales tax, that are remitted to the applicable taxing authorities. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectibility of consideration is probable. We generally recognize revenue over time as we perform because of continuous transfer of control to our customers.

We generate revenue primarily through the lease, rental and maintenance of revenue earning equipment and by providing logistics management and dedicated services. We classify our revenues in the categories of lease and rental, services and fuel. Our lease and rental revenues are accounted for in accordance with existing lease guidance in Leases (Topic 840) and our services and fuel revenues are accounted for in accordance with revenue recognition guidance in Topic 606.

Lease and rental

Lease and rental includes ChoiceLease and commercial rental revenues from our Fleet Management Solutions (FMS) business segment. We offer a full service lease as well as a lease with more flexible maintenance options under our ChoiceLease product line, which are marketed, priced and managed as bundled lease arrangements, and include equipment, service and financing components. We do not offer a stand-alone unbundled lease of new vehicles. For

these reasons, both the lease and service components of our leases are included within lease and rental revenues.

ChoiceLease revenue is recognized in accordance with existing lease accounting guidance in Topic 840. Our ChoiceLease arrangements include lease deliverables such as the lease of a vehicle and the executory agreement for the maintenance, insurance, taxes and other services related to the leased vehicles during the lease term. Arrangement consideration is allocated between the lease deliverables and non-lease deliverables based on management's best estimate of the relative fair value of each deliverable. The arrangement consideration is accounted for pursuant to accounting guidance on leases. Our ChoiceLease arrangements provide for a fixed charge billing and a variable charge billing based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Revenue from ChoiceLease and rental agreements is recognized based on the classification of the arrangement, typically as either an operating or direct financing lease (DFL).

The majority of our leases and all of our rental arrangements are classified as operating leases and, therefore, we recognize lease and commercial rental revenue on a straight-line basis as it becomes receivable over the term of the lease or rental arrangement. Lease and rental agreements do not usually provide for scheduled rent increases or escalations. However, most lease agreements allow for rate changes based upon changes in the Consumer Price Index (CPI). ChoiceLease and rental agreements also provide for vehicle usage charges based on a time charge and/or a fixed per-mile charge. The fixed time charge, the fixed per-mile charge and the changes in rates attributed to changes in the CPI are considered contingent rentals and are not considered fixed or determinable until the effect of CPI changes is implemented or the equipment usage occurs.

Leases not classified as operating leases are generally considered direct financing leases. We recognize revenue for direct financing leases using the effective interest method, which provides a constant periodic rate of return on the outstanding investment on the lease. Cash receipts on impaired direct financing lease receivables are first applied to the direct financing lease receivable and then to any unrecognized income. A direct financing lease receivable is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the lease.

Services

Services include SelectCare and other revenues from our FMS business segment and all Dedicated Transportation Solutions (DTS) and Supply Chain Solutions (SCS) revenues.

Under our SelectCare arrangements, we provide maintenance and repairs required to keep a vehicle in good operating condition, schedule preventive maintenance inspections and provide access to emergency road service and substitute vehicles. The vast majority of our services are routine services performed on a recurring basis throughout the term of the arrangement. From time to time, we provide non-routine major repair services in order to place a vehicle back in service.

Through our SelectCare product line, we provide maintenance services to customers who do not choose to lease vehicles from us. Our maintenance service arrangement provides for a monthly fixed charge and a monthly variable charge based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears. Most maintenance agreements allow for rate changes based upon changes in the CPI. The fixed per-mile charge and the changes in rates attributed to changes in the CPI are recognized as earned. Costs associated with the activities performed under our maintenance arrangements are primarily comprised of labor, parts and outside work. These costs are expensed as incurred. Non-chargeable maintenance costs have been allocated and reflected within "Cost of services" based on the proportionate maintenance-related labor costs relative to all product lines.

The maintenance service is the only performance obligation in SelectCare contracts. This single performance obligation is satisfied at a point in time for transactional maintenance services or over time for contract maintenance agreements. For contract maintenance agreements, the maintenance performance obligation represents a series of distinct maintenance services performed during the contract period as the services provided are substantially the same and have the same pattern of transfer to our customers. Revenue from SelectCare contracts is recognized as

maintenance services are rendered over the terms of the related arrangements. We generally account for long-term maintenance contracts as one-year contracts since our maintenance arrangements are generally cancelable, without penalty, after one year. As a practical expedient, we do not disclose information about remaining performance obligations that have original expected durations of one year or less. For maintenance contracts that are longer than one year (i.e., not cancelable without penalty), the revenue we recognize corresponds with our performance completed to date. We measure the progress of transfer based on the costs incurred to provide the service to the customer. The amount that we have the right to invoice for services performed aligns with this measure. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the fixed and variable revenue recognized corresponds to the amount we have the right to invoice for services performed.

In our DTS business segment, we combine equipment, maintenance, drivers, administrative services and additional services to provide customers with a single integrated dedicated transportation solution. DTS transportation solutions are customized for our customers based on a transportation analysis to create a logistics design that includes the routing and scheduling of vehicles, the efficient use of vehicle capacity and overall asset utilization. In our SCS business, we offer a broad range of logistics management services designed to optimize the supply chain and address the key business requirements of our customers. SCS operates by industry verticals (Automotive, Technology and Healthcare, Consumer Packaged Goods and

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Retail, and Industrial) to enable our teams to focus on the specific needs of their customers. Our SCS services are supported by a variety of information technology and engineering solutions.

Revenues from DTS and SCS service contracts are recognized as services are rendered in accordance with contract terms, which typically include (1) fixed and variable billing rates, (2) cost-plus billing rates (input method based on actual costs incurred to perform services and a contracted mark-up), or (3) variable only or fixed only billing rates for the services. Our billing structure aligns with the value transferred to our customers. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the revenue recognized corresponds to the amount we have the right to invoice for services performed.

Our customers contract us to provide an integrated service of transportation or supply chain logistical services into a single transportation or supply chain solution. Therefore, we typically account for DTS and SCS service contracts as one performance obligation satisfied over time. Less commonly, however, we may promise to provide distinct goods or services within a contract, in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We infrequently sell standard products with observable standalone selling prices. More frequently, we sell a customized customer-specific solution, and in these cases we use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

Fuel

Fuel services include fuel services revenue from our FMS business segment. We provide our FMS customers with access to fuel at our maintenance facilities across the United States and Canada. Fuel services revenue is invoiced to customers at contracted rates, separate from other services being provided in other contracts, or at retail prices. Revenue from fuel services is recognized when fuel is delivered to customers. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the revenue recognized corresponds to the amount we have the right to invoice for services performed. Fuel is largely a pass-through to our customers, for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on trailing market fuel costs.

Significant Judgments and Estimates

Our contracts with customers often include promises to transfer multiple services to a customer. Determining whether these services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Our DTS and SCS services depend on a significant level of integration and interdependency between the services provided within a contract. Judgment is required to determine whether each service is considered distinct and accounted for separately, or not distinct and accounted for together as a significant integrated service and recognized over time. In making this judgment, we consider whether the services provided, within the context of the contract, represent the transfer of individual services or a combined bundle of services to the customer. This involves evaluating the promises to a customer within a contract to identify the services that need to be performed in order for the promise to be satisfied. Since multiple services that occur at different points in time during a contract may be accounted for as an integrated service, judgment is required to assess the pattern of delivery to our

customers.

Our judgments on collectibility are initially established when a business relationship with a customer is initiated and is continuously monitored as services are provided. We have a credit rating system based on internally developed standards and ratings provided by third parties. Our credit rating system, along with monitoring for delinquent payments, allows us to make decisions as to whether collectibility is probable. Factors considered during this process include historical payment trends, industry risks, liquidity of the customer, years in business, and judgments, liens or bankruptcies. When collectibility is not considered reasonably assured (typically when a customer is 120 days past due), revenue is not recognized until it is determined that the customer has the ability and intention to pay.

Contract Balances

We do not have material contract assets as we generally invoice customers as we perform services. Contract receivables are recorded in "Receivables, net" in the Consolidated Condensed Balance Sheets. Payment terms vary by contract type, although

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RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

terms generally include a requirement of payment within 30 to 90 days. As a practical expedient, we do not assess whether a contract has a significant financing component as the period between the receipt of customer payment and the transfer of service to the customer is less than a year. Our contract liabilities consist of deferred revenue. We record deferred revenues when cash payments are received or due in advance of our performance, including amounts that are refundable. We classify deferred revenue as current as we expect to recognize this revenue within 12 months. Revenue is recognized upon satisfaction of the performance obligation.

Costs to Obtain and Fulfill a Contract

Our incremental direct costs of obtaining a contract, which primarily consist of sales commissions and start-up costs, are capitalized and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. We capitalize incremental direct costs of obtaining a contract that i) relate directly to the contract and ii) are expected to be recovered through revenue generated under the contract. This requires an evaluation of whether the costs are incremental and would not have occurred absent the customer contract.

The current and noncurrent portions of incremental costs to obtain and fulfill a contract are included in “Prepaid expenses and other current assets” and “Direct financing leases and other assets” respectively, in the Consolidated Condensed Balance Sheets. Costs are amortized in “Selling, general and administrative expenses” in the Consolidated Condensed Statements of Earnings on a straight-line basis over the expected period of benefit.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Cloud Computing Arrangements

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal Use Software (Topic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which amends ASC 350-40 to address a customer’s accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Entities are permitted to apply either a retrospective or prospective approach to adopt the guidance. We are currently evaluating the impact of the adoption of this update on our consolidated financial position, results of operations, and cash flows.

Income Taxes

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which permits - but does not require - companies to reclassify stranded tax effects caused by 2017 tax reform from accumulated other comprehensive income to retained earnings. Additionally, the ASU requires new disclosures by all companies, whether they opt to do the reclassification or not. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We adopted this standard using

the aggregate portfolio approach and elected to reclassify \$101 million of tax benefits resulting from the federal income tax rate change, net of associated state tax effect, from accumulated other comprehensive loss to retained earnings as of the beginning of 2018. This standard did not impact our 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 adopted the standard during the first quarter of 2018 and it did not have an impact on our consolidated financial position, results of operations, or cash flows.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The objective of the update is to add guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill, and consolidation. Companies must use a prospective approach to adopt ASU 2017-01, which was effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We prospectively adopted this standard in the first quarter of 2018. The new standard did not have an impact to the Company's consolidated condensed financial statements during the first, second or third quarters of 2018.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, 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 was effective January 1, 2018, with early adoption permitted. We adopted the standard during the first quarter of 2018. As a result of this update, restricted cash is included within cash and cash equivalents on our statements of consolidated cash flows. As of September 30, 2018 and December 31, 2017, we had \$3 million and \$5 million, respectively, in prepaid expenses and other current assets associated with our like-kind exchange program for certain of our U.S. based revenue earning equipment.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which sets out the principles for the identification, measurement, recognition, presentation and disclosure of leases. The FASB issued subsequent updates to clarify and improve the standard. The standard impacts the accounting for both lessors and lessees. We will adopt the standard effective January 1, 2019, using the modified retrospective transition method.

The new standard requires lessors to identify and evaluate the lease and non-lease components in arrangements containing a lease, provides clarification on the scope of non-lease components and provides more guidance on how to identify and separate the components. 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. 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. We will generally continue to recognize revenue for the lease portion of the product line on a straight-line basis. The non-lease component will be accounted for in accordance with the revenue recognition guidance, see below section "Revenue Recognition." Revenue from maintenance services will be recognized consistent with the estimated timing pattern of maintenance costs, which will generally require the deferral of some portion of the customer's payments as a contract liability when received, as maintenance services are typically not performed evenly over the life of a ChoiceLease contract.

We are implementing a lessor revenue recognition system, which will both assist in separating the lease and non-lease components, primarily maintenance services, as well as account for the pattern of revenue recognition of the separate lease and non-lease components under our lessor arrangements. 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).

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 are implementing a lease management system to track and record the right-of-use asset and liability for all leases with a term of greater than 12 months.

We expect the cumulative-effect adjustment, resulting from the adoption of the lessor requirements, will have a significant impact on our consolidated financial position. We continue to evaluate the impact of adoption of the lessor requirements of this standard, however, such requirements may have a significant impact on our results of operations. We do not expect the adoption of the lessor requirements to have an impact on our cash flows. We do not expect the lessee requirements to have a material impact on our consolidated financial position, results of operations or cash flows. We are in the process of completing

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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additional process changes and updating internal controls to ensure the new reporting and disclosure requirements are met upon adoption.

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 addition, Topic 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted Topic 606 in the first quarter of 2018 using the full retrospective method, which required us to restate each prior reporting period presented.

Upon adoption of Topic 606, we applied the standard's practical expedient that permits the omission of disclosures of the prior period allocation of the transaction price to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Adoption of the new revenue recognition standard impacted our previously reported Consolidated Condensed Statements of Operations and Comprehensive Income results as follows (in millions, except per share amounts):

| | Three months ended September 30, 2017 | | | Nine months ended September 30, 2017 | | |
|---|--|-------------------------|---------------|---|-------------------------|---------------|
| | New Revenue | | As Revised | New Revenue | | As Revised |
| | As Previously Reported | Standard Adjustments | | As Previously Reported | Standard Adjustments | |
| Services revenue ⁽¹⁾ | \$896.2 | (7.6) | 888.6 | \$2,619.1 | (24.0) | 2,595.1 |
| Total revenues | 1,848.5 | (7.6) | 1,840.9 | 5,389.9 | (24.0) | 5,365.9 |
| Cost of services ⁽¹⁾ | 761.5 | (7.6) | 753.8 | 2,210.3 | (24.0) | 2,186.3 |
| Selling, general and administrative expenses ⁽²⁾ | 216.7 | (4.4) | 212.2 | 620.0 | (5.2) | 614.8 |
| Earnings from continuing operations before income taxes | 94.3 | 0.1 | 94.5 | 235.0 | 1.0 | 236.0 |
| Provision for income taxes | 35.4 | — | 35.5 | 86.5 | 0.5 | 87.0 |
| Earnings from continuing operations | 58.9 | 0.1 | 59.0 | 148.5 | 0.4 | 149.0 |
| Net earnings | 58.6 | 0.1 | 58.8 | 147.6 | 0.4 | 148.0 |
| Comprehensive income | 92.0 | 0.1 | 92.2 | 234.8 | 0.4 | 235.2 |
| Earnings per common share - Basic | | | | | | |
| Continuing operations | \$1.12 | — | 1.12 | \$2.81 | 0.01 | 2.82 |

Earnings per common share - Diluted

| | | | | | | |
|-----------------------|--------|------|------|--------|------|------|
| Continuing operations | \$1.11 | 0.01 | 1.12 | \$2.79 | 0.01 | 2.80 |
|-----------------------|--------|------|------|--------|------|------|

(1) Amount includes \$8 million and \$24 million for the three and nine months ended September 30, 2017, respectively, related to correction of a prior period error. We historically accounted for certain freight brokerage agreements as a principal and presented revenue and costs related to subcontracted transportation on a gross basis in our financial statements. In adopting Topic 606, we reviewed and evaluated our existing revenue contracts and determined that certain of our freight brokerage agreements should have historically been presented on a net basis as an agent. We evaluated the materiality of this revision, quantitatively and qualitatively. We concluded it was not material to any of our previously issued consolidated financial statements and correction as an out of period adjustment in the current period was not material.

(2) Amount includes \$4 million for the three and nine months ended September 30, 2017, related to consulting fees associated with a cost-savings program. The amount was reclassified from "Selling, general and administrative expenses" to "Restructuring and other charges, net" in our Consolidated Condensed Statement of Earnings in order to conform to the current period presentation.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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Adoption of the new revenue recognition standard impacted our previously reported Consolidated Condensed Balance Sheet as follows (in millions):

| December 31, 2017 | | |
|---|------------------------|---------------|
| | New Revenue | |
| As Previously Reported | Standard Adjustment | As Revised |
| Prepaid expenses and other current assets | \$159.5 0.6 | 160.1 |
| Total current assets | \$22.3 0.6 | 1,322.9 |
| Direct financing leases and other assets | 559.5 11.2 | 570.7 |
| Total assets | 1,452.2 11.8 | 11,464.0 |
| Accrued expenses and other current liabilities | 587.4 2.2 | 589.6 |
| Total current liabilities | 2,012.8 2.2 | 2,015.0 |
| Other non-current liabilities | 812.4 0.6 | 812.6 |
| Deferred income taxes | 1,208.8 2.4 | 1,211.1 |
| Total liabilities | 8,617.2 5.1 | 8,622.3 |
| Retained earnings | 2,465.0 6.7 | 2,471.7 |

| | |
|---|----------|
| Total shareholders' equity | 2,841.7 |
| Total liabilities and shareholders' equity | 11,464.0 |

3. ACQUISITIONS

On April 2, 2018, we acquired all of the outstanding equity of MXD Group, Inc. (MXD), an e-commerce fulfillment provider with a national network of facilities, including last mile delivery capabilities, for a purchase price of approximately \$118 million. The acquisition is included in our SCS business segment. We acquired MXD to build the foundation of e-fulfillment and final mile capabilities for our e-commerce business.

During the nine months ended September 30, 2018, we incurred acquisition transaction costs of \$1 million related to the acquisition that are reflected within "Selling, general and administrative expenses" in our Consolidated Condensed Statements of Earnings. The following table provides the preliminary purchase price allocation to the assets and the liabilities assumed as of the closing date of the MXD acquisition.

| | (In thousands) |
|---|-------------------|
| Assets: | |
| Operating property and equipment | \$9,803 |
| Goodwill | 81,848 |
| Customer relationships and other intangibles | 23,651 |
| Other assets, primarily accounts receivable | 31,492 |
| | 146,794 |
| Liabilities: | |
| Accrued liabilities | (18,107) |
| Deferred income taxes | (5,760) |
| Other liabilities, primarily accounts payable | (4,979) |
| Net assets acquired | \$ 117,948 |

The excess of the purchase consideration over the aggregate estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill recognized reflects e-commerce growth opportunities, opportunities to cross-sell with our existing customer base and expected cost synergies of combining MXD with our business. The goodwill is not expected to be deductible for income tax purposes. Customer relationship intangible assets are expected to be amortized over 8 years.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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The results of operations of MXD were not material to our results of operations and therefore pro forma financial information for the acquisition was not presented.

On June 15, 2018, we acquired all of the outstanding equity of Metro Truck & Tractor Leasing (Metro), a full service leasing, rental and maintenance company for a purchase price of approximately \$52 million. The acquisition is included in our FMS business segment. We acquired Metro to expand our presence in the Baltimore, Maryland area. The preliminary purchase accounting for this acquisition resulted in \$0.4 million of the purchase price allocated to customer relationships and other intangible assets, \$20 million allocated to tangible assets net of liabilities assumed and the remaining \$31 million represents goodwill. The goodwill recognized reflects expected cost synergies and operational improvements in the combined companies and expected growth opportunities with Metro's current customers and prospects in the Maryland market. The goodwill is not expected to be deductible for income tax purposes. Transaction costs related to the acquisition were \$0.5 million during the nine months ended September 30, 2018 and were reflected within "Selling, general and administrative expenses" in our Consolidated Condensed Statements of Earnings.

The assets, liabilities and results of operations of Metro were not material to our consolidated financial position or results of operations and therefore pro forma financial information for the acquisition was not presented.

The estimated fair values of assets acquired and liabilities assumed in the acquisitions of both MXD and Metro are preliminary and are based on the information that was available as of the acquisition date. We believe that we have sufficient information to provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed; however, we are currently obtaining additional information which will be necessary to finalize our estimate of fair values. Therefore, the preliminary measurements of estimated fair values reflected are subject to change. We expect to finalize the valuation and complete the purchase consideration allocation no later than one year from the acquisition date. The primary areas of the purchase price allocation that are not yet finalized relate to fixed assets, income and non-income taxes, the valuation of intangible assets acquired and residual goodwill, as well as certain contingent liabilities. The preliminary amounts assigned to intangible assets by type for the MXD and Metro acquisitions are based on our preliminary valuation model.

4. REVENUE

Disaggregation of Revenue

The following tables disaggregate our revenue by primary geographical market, major product/service lines, and industry:

Primary Geographical Markets

| | Three months ended September 30, 2018 | | | | |
|---------------|---------------------------------------|---------|---------|--------------|-------------|
| | FMS | DTS | SCS | Eliminations | Total |
| | (In thousands) | | | | |
| United States | \$ 1,180,337 | 340,604 | 508,196 | (141,874) |) 1,887,263 |
| Canada | 75,571 | — | 45,587 | (5,761) |) 115,397 |
| Europe | 80,640 | — | — | — |) 80,640 |

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| | | | | | |
|---------------|--------------|---------|---------|------------|-----------|
| Mexico | — | — | 68,705 | — | 68,705 |
| Singapore | — | — | 6,056 | — | 6,056 |
| Total revenue | \$ 1,336,548 | 340,604 | 628,544 | (147,635) | 2,158,061 |

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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| Three months ended September 30, 2017 | | | | | |
|---------------------------------------|--------------|---------|---------|--------------|-----------|
| | FMS | DTS | SCS | Eliminations | Total |
| (In thousands) | | | | | |
| United States | \$ 1,041,610 | 272,201 | 384,414 | (110,715) | 1,587,510 |
| Canada | 73,755 | — | 42,620 | (4,892) | 111,483 |
| Europe | 80,432 | — | — | — | 80,432 |
| Mexico | — | — | 53,427 | — | 53,427 |
| Singapore | — | — | 8,045 | — | 8,045 |
| Total revenue | \$ 1,195,797 | 272,201 | 488,506 | (115,607) | 1,840,897 |

| Nine months ended September 30, 2018 | | | | | |
|--------------------------------------|--------------|---------|-----------|--------------|-----------|
| | FMS | DTS | SCS | Eliminations | Total |
| (In thousands) | | | | | |
| United States | \$ 3,395,291 | 970,196 | 1,384,044 | (405,159) | 5,344,372 |
| Canada | 225,903 | — | 136,428 | (16,526) | 345,805 |
| Europe | 253,386 | — | — | — | 253,386 |
| Mexico | — | — | 189,181 | — | 189,181 |
| Singapore | — | — | 18,122 | — | 18,122 |
| Total revenue | \$ 3,874,580 | 970,196 | 1,727,775 | (421,685) | 6,150,866 |

| Nine months ended September 30, 2017 | | | | | |
|--------------------------------------|--------------|---------|-----------|--------------|-----------|
| | FMS | DTS | SCS | Eliminations | Total |
| (In thousands) | | | | | |
| United States | \$ 3,048,742 | 811,277 | 1,106,226 | (329,367) | 4,636,878 |
| Canada | 207,577 | — | 125,116 | (13,671) | 319,022 |
| Europe | 235,527 | — | — | — | 235,527 |
| Mexico | — | — | 151,169 | — | 151,169 |
| Singapore | — | — | 23,312 | — | 23,312 |
| Total revenue | \$ 3,491,846 | 811,277 | 1,405,823 | (343,038) | 5,365,908 |

Major Products/Service Lines

| Three months ended September 30, 2018 | | | | | |
|---------------------------------------|--------------|---------|---------|--------------|-----------|
| | FMS | DTS | SCS | Eliminations | Total |
| (In thousands) | | | | | |
| ChoiceLease | \$ 716,728 | — | — | (64,295) | 652,433 |
| SelectCare | 125,850 | — | — | (10,418) | 115,432 |
| Commercial rental | 257,909 | — | — | (15,175) | 242,734 |
| Fuel | 214,534 | — | — | (57,747) | 156,787 |
| Other | 21,527 | — | — | — | 21,527 |
| DTS | — | 340,604 | — | — | 340,604 |
| SCS | — | — | 628,544 | — | 628,544 |
| Total revenue | \$ 1,336,548 | 340,604 | 628,544 | (147,635) | 2,158,061 |

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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| | Three months ended September 30, 2017 | | | | |
|-------------------|---------------------------------------|---------|-----------|--------------|-------------|
| | FMS | DTS | SCS | Eliminations | Total |
| | (In thousands) | | | | |
| ChoiceLease | \$673,882 | — | — | (57,265) |) 616,617 |
| SelectCare | 116,985 | — | — | (8,206) |) 108,779 |
| Commercial rental | 216,016 | — | — | (9,436) |) 206,580 |
| Fuel | 169,787 | — | — | (40,700) |) 129,087 |
| Other | 19,127 | — | — | — |) 19,127 |
| DTS | — | 272,201 | — | — |) 272,201 |
| SCS | — | — | 488,506 | — |) 488,506 |
| Total revenue | \$1,195,797 | 272,201 | 488,506 | (115,607) |) 1,840,897 |
| | | | | | |
| | Nine months ended September 30, 2018 | | | | |
| | FMS | DTS | SCS | Eliminations | Total |
| | (In thousands) | | | | |
| ChoiceLease | \$2,107,938 | — | — | (187,822) |) 1,920,116 |
| SelectCare | 372,989 | — | — | (29,603) |) 343,386 |
| Commercial rental | 694,864 | — | — | (37,536) |) 657,328 |
| Fuel | 633,571 | — | — | (166,724) |) 466,847 |
| Other | 65,218 | — | — | — |) 65,218 |
| DTS | — | 970,196 | — | — |) 970,196 |
| SCS | — | — | 1,727,775 | — |) 1,727,775 |
| Total revenue | \$3,874,580 | 970,196 | 1,727,775 | (421,685) |) 6,150,866 |
| | | | | | |
| | Nine months ended September 30, 2017 | | | | |
| | FMS | DTS | SCS | Eliminations | Total |
| | (In thousands) | | | | |
| ChoiceLease | \$1,992,656 | — | — | (167,382) |) 1,825,274 |
| SelectCare | 347,978 | — | — | (26,732) |) 321,246 |
| Commercial rental | 589,362 | — | — | (26,835) |) 562,527 |
| Fuel | 505,055 | — | — | (122,089) |) 382,966 |
| Other | 56,795 | — | — | — |) 56,795 |
| DTS | — | 811,277 | — | — |) 811,277 |
| SCS | — | — | 1,405,823 | — |) 1,405,823 |
| Total revenue | \$3,491,846 | 811,277 | 1,405,823 | (343,038) |) 5,365,908 |

RYDER SYSTEM, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
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Industry

Our SCS business segment includes revenue from the below industries:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|--|---------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Automotive | \$250,499 | 193,284 | \$690,177 | 578,087 |
| Technology and healthcare | 123,045 | 99,078 | 340,528 | 274,030 |
| CPG and retail | 210,965 | 136,590 | 544,019 | 381,967 |
| Industrial and other | 44,035 | 59,554 | 153,051 | 171,739 |
| Total revenue | \$628,544 | 488,506 | \$1,727,775 | 1,405,823 |

Contract Balances

We record a receivable related to revenue recognized when we have an unconditional right to invoice. There were no material contract assets as of September 30, 2018 or December 31, 2017. Trade receivables were \$1.04 billion and \$899 million at September 30, 2018 and December 31, 2017, respectively. Impairment losses on receivables were not material during the third quarters of 2018 and 2017.

Contract liabilities relate to payments received in advance of performance under the contract. Changes in contract liabilities are due to our performance under the contract. The amount of revenue recognized during the nine months ended September 30, 2018 that was included within deferred revenue at January 1, 2018 was \$13 million.

5. REVENUE EARNING EQUIPMENT

| | September 30, 2018 | | | December 31, 2017 | | |
|-------------------|--------------------|-----------------------------|-------------------------------------|-------------------|-----------------------------|-------------------------------------|
| | Cost | Accumulated Depreciation | Net Book Value ⁽¹⁾ | Cost | Accumulated Depreciation | Net Book Value ⁽¹⁾ |
| | (In thousands) | | | | | |
| Held for use: | | | | | | |
| ChoiceLease | \$10,559,956 | (3,623,781) | 6,936,175 | 10,002,981 | (3,367,431) | 6,635,550 |
| Commercial rental | 3,163,603 | (1,030,908) | 2,132,695 | 2,616,706 | (1,001,965) | 1,614,741 |
| Held for sale | 413,677 | (295,720) | 117,957 | 403,229 | (298,258) | 104,971 |
| Total | \$14,137,236 | (4,950,409) | 9,186,827 | 13,022,916 | (4,667,654) | 8,355,262 |

Revenue earning equipment, net includes vehicles under capital leases of \$19 million, less accumulated (1)depreciation of \$10 million, at September 30, 2018, and \$29 million, less accumulated depreciation of \$14 million, at December 31, 2017.

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, 2018 and December 31, 2017, the net investment in direct financing and sales-type leases was \$461 million and \$447 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 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.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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As of September 30, 2018 and December 31, 2017, 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.

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. Expected declines in market prices were also considered when valuing the vehicles held for sale. 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:

| | September 30, 2018 | December 31, 2017 | Total Losses ⁽²⁾ | | | |
|--|--------------------------|-------------------------|--|-------|---|--------|
| | | | Three months ended September 30, 2018 | | Nine months ended September 30, 2017 | |
| | | | | | | |
| Assets held for sale: | | | | | | |
| Revenue earning equipment ⁽¹⁾ : | | | | | | |
| Trucks | \$40,950 | 33,208 | \$9,713 | 6,215 | \$28,609 | 22,942 |
| Tractors | 24,897 | 27,976 | 1,317 | 1,127 | 6,795 | 18,444 |
| Trailers | 1,770 | 2,100 | 502 | 1,871 | 3,700 | 5,044 |
| Total assets at fair value | \$67,617 | 63,284 | \$11,532 | 9,213 | \$39,104 | 46,430 |

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 that were less than fair value was \$50 million and \$42 million as of September 30, 2018 and December 31, 2017, respectively.

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, 2018 and 2017, the components of used vehicle sales, net were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------------|--|----------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | | | | |
| | | | | |
| Gains on vehicle sales, net | \$(8,520) | (11,940) | \$(22,670) | (34,615) |
| Losses from fair value adjustments | 11,532 | 9,213 | 39,104 | 46,430 |
| Used vehicle sales, net | \$3,012 | (2,727) | \$16,434 | 11,815 |

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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6. GOODWILL

The carrying amount of goodwill attributable to each reportable business segment was as follows:

| | Fleet Management Solutions (In thousands) | Dedicated Transportation Solutions | Supply Chain Solutions | Total |
|--|--|--|------------------------------|-----------|
| Balance at December 31, 2017 | | | | |
| Goodwill | \$237,176 | 40,808 | 146,741 | 424,725 |
| Accumulated impairment losses | (10,322) | — | (18,899) | (29,221) |
| | 226,854 | 40,808 | 127,842 | 395,504 |
| Acquisitions ⁽¹⁾ | 31,209 | — | 81,848 | 113,057 |
| Foreign currency translation adjustments | 279 | — | (158) | 121 |
| Balance at September 30, 2018 | | | | |
| Goodwill | 268,664 | 40,808 | 228,431 | 537,903 |
| Accumulated impairment losses | (25,835) | — | (18,899) | (44,734) |
| | \$242,829 | 40,808 | 209,532 | 493,169 |

⁽¹⁾ See Note 3, "Acquisitions," in the Notes to Consolidated Condensed Financial Statements for additional information.

On October 1, 2017, we completed our annual goodwill impairment test and determined there was no impairment. However, based on market conditions impacting our FMS Europe reporting unit's financial performance in the first quarter of 2018, we performed an interim impairment test as of March 31, 2018. Based on our analysis, we determined that all goodwill associated with our FMS Europe reporting unit was impaired and recorded an impairment charge of \$16 million. The impairment charge was recorded within "Restructuring and other charges, net" in our Consolidated Condensed Statements of Earnings.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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7. ACCRUED EXPENSES AND OTHER LIABILITIES

| | September 30, 2018 | | | December 31, 2017 | | |
|--|--------------------|-------------------------|-----------|-------------------|-------------------------|-----------|
| | Accrued Expenses | Non-Current Liabilities | Total | Accrued Expenses | Non-Current Liabilities | Total |
| | (In thousands) | | | | | |
| Salaries and wages | \$134,016 | — | 134,016 | \$135,930 | — | 135,930 |
| Deferred compensation | 5,172 | 63,194 | 68,366 | 4,269 | 58,411 | 62,680 |
| Pension benefits | 3,855 | 400,197 | 404,052 | 3,863 | 412,417 | 416,280 |
| Other postretirement benefits | 1,476 | 18,631 | 20,107 | 1,481 | 19,760 | 21,241 |
| Other employee benefits | 23,034 | — | 23,034 | 28,636 | 3,279 | 31,915 |
| Insurance obligations ⁽¹⁾ | 148,736 | 260,357 | 409,093 | 130,848 | 242,473 | 373,321 |
| Operating taxes | 94,004 | — | 94,004 | 95,848 | — | 95,848 |
| Income taxes | 5,883 | 20,843 | 26,726 | 8,550 | 23,888 | 32,438 |
| Interest | 34,521 | — | 34,521 | 30,003 | — | 30,003 |
| Deposits, mainly from customers | 81,200 | 3,391 | 84,591 | 69,903 | 3,638 | 73,541 |
| Deferred revenue | 21,500 | — | 21,500 | 14,004 | — | 14,004 |
| Restructuring liabilities ⁽²⁾ | 4,372 | — | 4,372 | 13,074 | — | 13,074 |
| Other | 60,906 | 61,536 | 122,442 | 53,194 | 48,776 | 101,970 |
| Total | \$618,675 | 828,149 | 1,446,824 | \$589,603 | 812,642 | 1,402,245 |

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

The reduction in restructuring liabilities from December 31, 2017, principally represents cash payments for (2) employee termination costs. The majority of the balance remaining in restructuring liabilities is expected to be paid by the second quarter of 2019.

8. INCOME TAXES

Tax Law Changes

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the “Act”) was signed into law. The Act made broad and complex changes to the U.S. tax code and it will take time to fully interpret the changes. The Act significantly impacted 2018 earnings, and will impact earnings in future periods; however, we have not fully completed the accounting under Income Taxes (Topic 740) for certain of the Act’s new provisions. In accordance with Topic 740, to the extent the accounting for certain income tax effects of the Act was incomplete, but we were able to determine a reasonable estimate of those effects, a provisional amount (“provisional amount”) has been included in our financial statements. Conversely, where a reasonable estimate of the tax effects of the Act cannot be determined, no related provisional amounts have been included in the financial statements. We intend to adjust the tax effects for the relevant items during the allowed 2018 measurement period as we finalize our U.S. income tax return.

The Act also requires companies to pay a one-time transition tax on unremitted earnings of certain foreign subsidiaries that had not been subject to U.S. income tax and creates new taxes on certain foreign earnings. We included a \$33 million provisional estimate for the transition tax in the December 31, 2017 financial statements. On April 2, 2018, the Internal Revenue Service issued Notice 2018-26, which required us to increase the provisional estimate related to the one-time transition tax. We estimated the additional tax provision to be approximately \$29 million. The transition tax

estimate will be further adjusted during the fourth quarter of 2018 as we refine our determination of historical earnings and profits and the amount of cash and cash equivalents held in foreign entities.

As of September 30, 2018, we have alternative minimum tax (AMT) credit carryforwards of \$24 million, which do not expire and can be used to offset regular income taxes in future years. Under the Act, the AMT was repealed and taxpayers may claim a refund of 50% of their remaining AMT credit carryforwards (to the extent the credits exceed regular tax for the year) in 2018, 2019 and 2020. Any AMT credits remaining after 2020 will be refunded in 2021. Pursuant to the requirements of the

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Balanced Budget and Emergency Deficit Control Act of 1985, refundable AMT credits will be subject to sequestration, which is currently 6.2% for refunds after 2019. Furthermore, during the first quarter of 2018, the Internal Revenue Service confirmed that sequestration would apply to refundable AMT credits under the Act. We reclassified our credits to a receivable and recorded a charge of \$1 million to account for the sequestration reduction. The reclassification and provision for sequestration are adjustments to provisional estimates of the tax effects of the Act.

Uncertain Tax Positions

We are subject to tax audits in numerous jurisdictions in the U.S. and foreign countries. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we recognize the tax benefit from uncertain tax positions that are at least more likely than not of being sustained upon audit, based on the technical merits of the tax position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Such calculations require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates. We reevaluate uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, expiration of statutes of limitations, changes in tax law, effectively settled issues under audit, and new audit activity. Depending on the jurisdiction, such a change in recognition or measurement may result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

The following is a summary of tax years that are no longer subject to examination:

Federal — audits of our U.S. federal income tax returns are closed through fiscal year 2008.

State — for the majority of states, tax returns are closed through fiscal year 2011 with the exception of states with net operating loss carryforwards that are generally closed through 1997.

Foreign — we are no longer subject to foreign tax examinations by tax authorities for tax years before 2010 in Canada and 2013 in Brazil, Mexico and the U.K., which are our major foreign tax jurisdictions.

At September 30, 2018 and December 31, 2017, the total amount of gross unrecognized tax benefits (including interest and penalties, excluding the federal benefit on state issues) was \$64 million and \$68 million, respectively. During the first quarter of 2018, we determined that reserves for certain uncertain tax positions should have been reversed in prior periods when the statutes of limitations expired. As the amounts were not material to our consolidated financial statements in any individual period, and the cumulative amount is not material to 2018 results, we recognized in total a \$3 million benefit in our provision for income taxes related to this reversal in the first quarter. In the third quarter of 2018, we recorded an additional \$1 million benefit to our provision.

Effective Tax Rate

Our effective income tax rates from continuing operations for the third quarter of 2018 and the nine months ended September 30, 2018, were 22.9% and 36.4%, respectively, compared with 37.5% in the third quarter and 36.9% in the nine months ended September 30, 2017. The effective income tax rate for the third quarter of 2018 reflects a lower federal tax rate due to the Act and a \$2 million tax benefit, recorded on a discrete basis, resulting from a state tax law change. The effective income tax rate for the nine months ended September 30, 2018, reflects a lower federal tax rate

due to the Act offset by an additional tax provision recorded to adjust the provisional estimate for the one-time transition tax.

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9. DEBT

| | Weighted-Average Interest Rate | | Maturities | September 30, December 31, 2018 2017 | |
|---|-----------------------------------|----------------------|------------|---|----------------------|
| | September 30, 2018 | December 31, 2017 | | September 30, 2018 | December 31, 2017 |
| (In thousands) | | | | | |
| Short-term debt and current portion of long-term debt: | | | | | |
| Short-term debt | —% | 1.79% | | \$— | 35,509 |
| Current portion of long-term debt | | | | 859,530 | 790,560 |
| Total short-term debt and current portion of long-term debt | | | | 859,530 | 826,069 |
| Long-term debt: | | | | | |
| U.S. commercial paper ⁽¹⁾ | 2.30% | 1.56% | 2023 | 410,273 | 570,218 |
| Canadian commercial paper ⁽¹⁾ | 1.83% | —% | 2023 | 94,427 | — |
| Global revolving credit facility | 3.34% | 2.80% | 2023 | 3,250 | 17,328 |
| Unsecured U.S. notes — Medium-term notes ⁽²⁾ | 3.09% | 2.73% | 2018-2025 | 4,863,427 | 4,014,091 |
| Unsecured U.S. obligations | 3.21% | 2.79% | 2019 | 50,000 | 50,000 |
| Unsecured foreign obligations | 1.61% | 1.50% | 2020-2021 | 222,489 | 230,380 |
| Asset-backed U.S. obligations ⁽²⁾ | 2.34% | 1.85% | 2018-2025 | 657,819 | 491,899 |
| Capital lease obligations | 3.57% | 3.53% | 2018-2023 | 15,019 | 20,871 |
| Total before fair market value adjustment | | | | 6,316,704 | 5,394,787 |
| Fair market value adjustment on notes subject to hedging ⁽³⁾ | | | | (16,126) | (7,192) |
| Debt issuance costs | | | | (17,468) | (13,453) |
| | | | | 6,283,110 | 5,374,142 |
| Current portion of long-term debt | | | | (859,530) | (790,560) |
| Long-term debt | | | | 5,423,580 | 4,583,582 |
| Total debt | | | | \$6,283,110 | 5,409,651 |

(1) Amounts are net of unamortized original issue discounts of \$7 million and \$6 million at September 30, 2018 and December 31, 2017.

(2) Asset-backed U.S. obligations are related to financing transactions involving revenue earning equipment.

(3) The notional amount of the executed interest rate swaps designated as fair value hedges was \$825 million at September 30, 2018 and December 31, 2017.

We maintain a \$1.4 billion global revolving credit facility with a syndicate of twelve lending institutions led by Bank of America N.A., MUFG Bank, Ltd., BNP Paribas, Mizuho Bank, Ltd., Royal Bank of Canada, Lloyds Bank Plc, U.S. Bank N.A. and Wells Fargo Bank, N.A. The credit facility size increased from \$1.2 billion to \$1.4 billion during the third quarter of 2018. The facility expires in September 2023. The agreement provides for annual facility fees that range from 7.5 basis points to 20 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 \$1.4 billion.

The credit facility is primarily used 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, 2018). 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, 2018 was 177%. At September 30, 2018, there was \$892 million available under the credit facility.

Our global revolving credit facility enables us to refinance short-term obligations on a long-term basis. Short-term commercial paper obligations not required for working capital needs are classified as long-term as we have both the intent and

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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, 2018, we classified \$505 million of short-term commercial paper, \$550 million of the current portion of long-term debt and \$50 million of short-term debt as long-term debt. At December 31, 2017, we classified \$570 million of short-term commercial paper and \$16 million of the current portion of long-term debt as long-term debt.

In August 2018, we issued \$300 million of unsecured medium-term notes maturing in June 2021. In June 2018, we issued \$450 million of unsecured medium-term notes maturing in June 2023. In February 2018, we issued \$450 million of unsecured medium-term notes maturing in March 2023. 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, and 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 July and June 2018, we received \$125 million and \$100 million, respectively, 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 \$225 million. The program was renewed in June 2018. If no event occurs which causes early termination, the 364-day program will expire on June 12, 2019. 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, 2018 or December 31, 2017.

At September 30, 2018 and December 31, 2017, we had letters of credit and surety bonds outstanding totaling \$347 million and \$350 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, 2018 and December 31, 2017 was approximately \$5.60 billion and \$4.95 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.

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10. DERIVATIVES

From time to time, we enter into interest rate derivatives to manage our fixed and variable interest rate exposure and to better match 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 or 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, 2018, we had interest rate swaps outstanding that 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 of these interest rate swaps was a liability of \$16 million and \$7 million as of September 30, 2018 and December 31, 2017, respectively. The amounts are presented in "Accrued expenses and other current liabilities" and "Other non-current liabilities" in our Consolidated Condensed Balance Sheets. 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.

As of September 30, 2018, we had an interest rate swap outstanding that was designated as a cash flow hedge for a certain debt obligation, with a total notional value of \$15 million and maturity through 2021. The interest rate swap is measured at fair value on a recurring basis using Level 2 fair value inputs. The fair value of this interest rate swap was not material as of September 30, 2018. The amounts are presented in "Other non-current liabilities" in our Consolidated Condensed Balance Sheets. The effective portion of the change in the fair value of the hedging instrument is reported in other comprehensive income. The amounts accumulated in other comprehensive income are reclassified to earnings when the related interest payments affect earnings. There was no ineffectiveness related to the interest rate swap.

11. SHARE REPURCHASE PROGRAMS

In December 2017, 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 up to 1.5 million shares of common stock, the sum of which will not exceed the number of shares issued to employees under the Company's employee stock plans from December 31, 2017 to December 13, 2019. 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 the Company 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, 2018 and September 30, 2017, we repurchased approximately 369,000 shares for \$28 million and 933,000 shares for \$66 million, respectively.

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12. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Currency Translation Adjustments and Other | Net Actuarial Loss ⁽¹⁾ | Prior Service (Cost)/ Credit ⁽¹⁾ | Accumulated Other Comprehensive Loss |
|--|---|--------------------------------------|---|---|
| | (In thousands) | | | |
| December 31, 2017 | \$(140,438) | (560,153) | (6,910) | (707,501) |
| Amortization | — | 15,784 | 238 | 16,022 |
| Other current period change | (23,198) | (903) | — | (24,101) |
| Adoption of new accounting standard ⁽²⁾ | — | (98,987) | (1,580) | (100,567) |
| September 30, 2018 | \$(163,636) | (644,259) | (8,252) | (816,147) |

| | Currency Translation Adjustments and Other | Net Actuarial Loss ⁽¹⁾ | Prior Service Credit ⁽¹⁾ | Accumulated Other Comprehensive Loss |
|-----------------------------|---|--------------------------------------|--|---|
| | (In thousands) | | | |
| 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) |

⁽¹⁾ These amounts are included in the computation of net pension expense. See Note 15, "Employee Benefit Plans," for additional information.

⁽²⁾ Refer to Note 2, "Recent Accounting Pronouncements" for additional information.

The loss from currency translation adjustments in the nine months ended September 30, 2018 of \$23 million was primarily due to the weakening of the British Pound and Canadian Dollar against the U.S. Dollar. The gain from currency translation adjustments in the nine months ended September 30, 2017 of \$71 million was primarily due to the strengthening of the British Pound and the Canadian Dollar against the U.S. Dollar.

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13. EARNINGS PER SHARE

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|--------|------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | | |
| Earnings per share — Basic: | | | | |
| Earnings from continuing operations | \$89,511 | 59,040 | \$166,962 | 148,971 |
| Less: Earnings allocated to unvested stock | (326) | (223) | (601) | (538) |
| Earnings from continuing operations available to common shareholders — Basic | \$89,185 | 58,817 | \$166,361 | 148,433 |
| Weighted average common shares outstanding — Basic | 52,397 | 52,405 | 52,391 | 52,671 |
| Earnings from continuing operations per common share — Basic | \$1.70 | 1.12 | \$3.18 | 2.82 |
| Earnings per share — Diluted: | | | | |
| Earnings from continuing operations | \$89,511 | 59,040 | \$166,962 | 148,971 |
| Less: Earnings allocated to unvested stock | (326) | (223) | (601) | (538) |
| Earnings from continuing operations available to common shareholders — Diluted | \$89,185 | 58,817 | \$166,361 | 148,433 |
| Weighted average common shares outstanding — Basic | 52,397 | 52,405 | 52,391 | 52,671 |
| Effect of dilutive equity awards | 373 | 371 | 349 | 356 |
| Weighted average common shares outstanding — Diluted | 52,770 | 52,776 | 52,740 | 53,027 |
| Earnings from continuing operations per common share — Diluted | \$1.69 | 1.12 | \$3.15 | 2.80 |
| Anti-dilutive equity awards not included above | 1,197 | 843 | 1,230 | 889 |

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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14. 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 ended September 30, 2018 | | Nine months ended September 30, 2017 | |
|--|--|----------|---|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Stock option and stock purchase plans | \$1,917 | 1,953 | \$5,688 | 5,811 |
| Unvested stock | 5,262 | 2,618 | 13,143 | 8,823 |
| Share-based compensation expense | 7,179 | 4,571 | 18,831 | 14,634 |
| Income tax benefit | (1,388) | (1,608) | (3,617) | (5,090) |
| Share-based compensation expense, net of tax | \$5,791 | 2,963 | \$15,214 | 9,544 |

The compensation expense associated with cash awards was not material for the three and nine months ended September 30, 2018 and 2017.

Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements at September 30, 2018, was \$35 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 months ended September 30, 2018 | | 2017 | |
|---|---|------|-----------------------|--|
| | 2018 | 2017 | (Shares in thousands) | |
| Stock options | 347 | 465 | | |
| Market-based restricted stock rights | — | 46 | | |
| Performance-based restricted stock rights | 200 | 79 | | |
| Time-vested restricted stock rights | 167 | 110 | | |
| Total | 714 | 700 | | |

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15. EMPLOYEE BENEFIT PLANS

Components of net pension expense were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|--|----------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Pension Benefits | | | | |
| Company-administered plans: | | | | |
| Service cost | \$3,074 | 3,165 | \$9,370 | 9,431 |
| Interest cost | 19,425 | 21,609 | 58,275 | 64,524 |
| Expected return on plan assets | (25,187) | (22,822) | (76,086) | (68,012) |
| Amortization of: | | | | |
| Net actuarial loss | 7,130 | 8,336 | 21,416 | 24,863 |
| Prior service cost | 145 | 133 | 434 | 399 |
| | 4,587 | 10,421 | 13,409 | 31,205 |
| Union-administered plans | 2,469 | 7,873 | 7,339 | 12,996 |
| Net pension expense | \$7,056 | 18,294 | \$20,748 | 44,201 |

Company-administered plans:

| | | | | |
|--------------------------|---------|--------|----------|---------|
| U.S. | \$7,011 | 10,929 | \$21,033 | 32,787 |
| Non-U.S. | (2,424) | (508) | (7,624) | (1,582) |
| | 4,587 | 10,421 | 13,409 | 31,205 |
| Union-administered plans | 2,469 | 7,873 | 7,339 | 12,996 |
| Net pension expense | \$7,056 | 18,294 | \$20,748 | 44,201 |

During the nine months ended September 30, 2018, we contributed \$23 million to our pension plans. In 2018, the expected total contributions to our pension plans are approximately \$27 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 and nine months ended September 30, 2018.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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16. OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance as shown in Note 19, "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 months ended September 30, | | Nine months ended September 30, | |
|------------------------------------|----------------------------------|-------|---------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Restructuring and other, net | \$313 | 4,255 | \$4,209 | 1,681 |
| Goodwill impairment ⁽¹⁾ | — | — | 15,513 | — |
| Pension settlement charge | — | 5,454 | — | 5,454 |
| Operating tax adjustment | — | — | — | 2,205 |
| Restructuring and other items, net | \$313 | 9,709 | \$19,722 | 9,340 |

(1) Refer to Note 6, "Goodwill," for additional information.

During the three and nine months ended September 30, 2018 and 2017, the below items were recorded in "Restructuring and other, net":

In the second quarter of 2018, we committed to a plan to shutdown our Singapore business operations and recognized employee termination costs of \$0.6 million in third quarter of 2018 and \$3 million in the nine months ended September 30, 2018. We expect to incur additional restructuring charges related to exiting Singapore business operations, but we do not expect these charges to be material to our financial statements.

We recorded restructuring credits of \$2 million in the third quarter of 2018 and \$4 million in the nine months ended September 30, 2018, related to gains on the sale of certain U.K. facilities that were closed as part of our December 2017 restructuring activities.

During the third quarter and in the nine months ended September 30, 2018, we recorded acquisition transaction costs of \$0.4 million and \$3 million, respectively, related to the acquisitions of MXD and Metro.

During the third quarter and in the nine months ended September 30, 2018, we recorded \$1 million and \$3 million, respectively, of restructuring and other, net primarily related to professional fees and adjustments to the restructuring accrual recorded as of December 31, 2017.

During the third quarter of 2017, we incurred charges of \$4 million related to professional fees associated with a cost-savings program. During the second quarter of 2017, we realized restructuring credits of \$3 million related to the gains on sale of certain U.K. facilities that were closed as part of our December 2016 restructuring activities.

During the third quarter of 2017, we recorded a pension settlement charge of \$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 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 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.

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17. 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.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

| | Nine months ended | |
|---|-------------------|-----------|
| | September 30, | |
| | 2018 | 2017 |
| | (In thousands) | |
| Interest paid | \$ 116,506 | 99,889 |
| Income taxes paid | 20,181 | 10,596 |
| Changes in accounts payable related to purchases of revenue earning equipment | (96,161) | (63,184) |
| Operating and revenue earning equipment acquired under capital leases | 2,134 | 6,209 |
| Changes in restricted cash | (2,110) | (1,694) |

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Condensed Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Condensed Statements of Cash Flows.

| | September 30, | |
|--|----------------|-----------|
| | December 31, | |
| | 2018 | 2017 |
| | (In thousands) | |
| Cash and cash equivalents | \$ 60,688 | \$ 78,348 |
| Restricted cash included in prepaid expenses and other current assets | 2,564 | 4,674 |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | \$ 63,252 | \$ 83,022 |

Amounts included in restricted cash represent the proceeds from the sale of eligible vehicles under our like-kind exchange program for certain of our U.S. - based revenue earning equipment. Restricted cash is used for the acquisition of replacement vehicles and other specified applications.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

19. 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) 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) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Singapore. 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 the restructuring and other items, net discussed in Note 16, “Other Items Impacting Comparability.” CSS represents those costs incurred to support all business segments, including human resources, finance and procurement, 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 based upon estimated and planned resource utilization;
- Human resources — individual costs within this category are allocated under various methods, including allocation based on estimated utilization and number of personnel supported;
- 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. Expenses, where allocated, are based primarily on the number of personnel supported.

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”).

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, 2018 and 2017. 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 have been reclassified to conform to the current period presentation. These reclassifications were immaterial to the financial statements taken as a whole.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

| | FMS | DTS | SCS | Eliminations | Total |
|---|----------------|---------|---------|--------------|-----------|
| | (In thousands) | | | | |
| For the three months ended September 30, 2018 | | | | | |
| Revenue from external customers | \$1,188,913 | 340,604 | 628,544 | — | 2,158,061 |
| Inter-segment revenue | 147,635 | — | — | (147,635) | — |
| Total revenue | \$1,336,548 | 340,604 | 628,544 | (147,635) | 2,158,061 |
| Segment EBT | \$95,153 | 13,929 | 37,365 | (16,063) | 130,384 |
| Unallocated CSS | | | | | (12,770) |
| Non-operating pension costs ⁽¹⁾ | | | | | (1,161) |
| Restructuring and other items, net ⁽²⁾ | | | | | (313) |
| Earnings from continuing operations before income taxes | | | | | \$116,140 |
| Segment capital expenditures paid ⁽³⁾ | \$769,426 | 473 | 2,652 | — | 772,551 |
| Unallocated CSS capital expenditures paid | | | | | 6,154 |
| Capital expenditures paid | | | | | \$778,705 |
| For the three months ended September 30, 2017 | | | | | |
| Revenue from external customers | \$1,080,190 | 272,201 | 488,506 | — | 1,840,897 |
| Inter-segment revenue | 115,607 | — | — | (115,607) | — |
| Total revenue | \$1,195,797 | 272,201 | 488,506 | (115,607) | 1,840,897 |
| Segment EBT | \$100,803 | 13,734 | 22,093 | (14,464) | 122,166 |
| Unallocated CSS | | | | | (11,007) |
| Non-operating pension costs ⁽¹⁾ | | | | | (6,958) |
| Restructuring and other items, net ⁽²⁾ | | | | | (9,709) |
| Earnings from continuing operations before income taxes | | | | | \$94,492 |
| Segment capital expenditures paid ⁽³⁾ | \$431,093 | 1,878 | 16,705 | — | 449,676 |
| Unallocated CSS capital expenditures paid | | | | | 7,917 |
| Capital expenditures paid | | | | | \$457,593 |

(1) Non-operating pension costs include the amortization of net actuarial loss and prior service costs, interest costs and expected return on plan assets.

(2) See Note 16, "Other Items Impacting Comparability," for additional information.

(3) Excludes revenue earning equipment acquired under capital leases.

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, 2018 | | | | | |
| Revenue from external customers | \$3,452,895 | 970,196 | 1,727,775 | — | 6,150,866 |
| Inter-segment revenue | 421,685 | — | — | (421,685) | — |
| Total revenue | \$3,874,580 | 970,196 | 1,727,775 | (421,685) | 6,150,866 |
| Segment EBT | 217,851 | 45,433 | 101,283 | (44,644) | 319,923 |
| Unallocated CSS | | | | | (34,437) |
| Non-operating pension costs ⁽¹⁾ | | | | | (3,241) |
| Restructuring and other items, net ⁽²⁾ | | | | | (19,722) |
| Earnings from continuing operations before income taxes | | | | | \$262,523 |
| Segment capital expenditures paid ⁽³⁾⁽⁴⁾ | \$2,150,490 | 1,115 | 31,268 | — | 2,182,873 |
| Unallocated CSS capital expenditures paid | | | | | 17,133 |
| Capital expenditures paid | | | | | \$2,200,006 |
| For the nine months ended September 30, 2017 | | | | | |
| Revenue from external customers | \$3,148,808 | 811,277 | 1,405,823 | — | 5,365,908 |
| Inter-segment revenue | 343,038 | — | — | (343,038) | — |
| Total revenue | \$3,491,846 | 811,277 | 1,405,823 | (343,038) | 5,365,908 |
| Segment EBT | \$221,200 | 39,834 | 76,188 | (38,053) | 299,169 |
| Unallocated CSS | | | | | (32,986) |
| Non-operating pension costs ⁽¹⁾ | | | | | (20,875) |
| Restructuring and other items, net ⁽²⁾ | | | | | (9,340) |
| Earnings from continuing operations before income taxes | | | | | \$235,968 |
| Segment capital expenditures paid ⁽³⁾ | \$1,255,789 | 2,989 | 34,839 | — | 1,293,617 |
| Unallocated CSS capital expenditures paid | | | | | 19,228 |
| Capital expenditures paid | | | | | \$1,312,845 |

(1) Non-operating pension costs include the amortization of net actuarial loss and prior service costs, interest costs and expected return on plan assets.

(2) See Note 16, "Other Items Impacting Comparability," for additional information.

(3) Excludes revenue earning equipment acquired under capital leases.

(4) Excludes acquisition payments of \$35 million during the nine months ended September 30, 2018.

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 2017 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) 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) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Singapore. 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 food and beverage service, transportation and warehousing, automotive, retail and consumer goods, industrial, housing, technology, and business and personal services.

In addition, our results of operations and financial condition are influenced by a number of factors including, but not limited to: rental demand, used vehicle sales pricing, maintenance costs, customer contracting activity and retention, depreciation policy changes, currency exchange rate fluctuations, customer preferences, inflation, fuel and energy prices, general economic conditions, insurance costs, interest rates, labor costs, unemployment, tax rates, changes in accounting or regulatory requirements and cybersecurity attacks.

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 September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|---|--|-----------|------------------------------------|-----------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three Months | Nine Months |
| | (In thousands, except per share amounts) | | | | | |
| Total revenue | \$2,158,061 | 1,840,897 | \$6,150,866 | 5,365,908 | 17% | 15% |
| Operating revenue ⁽¹⁾ | 1,717,168 | 1,525,405 | 4,899,221 | 4,453,768 | 13% | 10% |
| EBT | \$116,140 | 94,492 | \$262,523 | 235,968 | 23% | 11% |
| Comparable EBT ⁽²⁾ | 117,614 | 111,159 | 285,486 | 266,183 | 6% | 7% |
| Earnings from continuing operations | 89,511 | 59,040 | 166,962 | 148,971 | 52% | 12% |
| Comparable earnings from continuing operations ⁽²⁾ | 86,758 | 70,947 | 209,955 | 168,515 | 22% | 25% |
| Net earnings | 88,751 | 58,750 | 164,514 | 148,024 | 51% | 11% |
| Earnings per common share (EPS) — Diluted | | | | | | |
| Continuing operations | \$1.69 | 1.12 | \$3.15 | 2.80 | 51% | 13% |
| Comparable ⁽²⁾ | 1.64 | 1.34 | 3.97 | 3.17 | 22% | 25% |
| Net earnings | 1.68 | 1.11 | 3.11 | 2.78 | 51% | 12% |

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 17% and 13%, respectively, in the third quarter of 2018. For the nine months ended September 30, 2018, total revenue increased 15% and operating revenue increased 10%. Total and operating revenue increased in both periods due to new business and higher volumes in all segments. SCS total and operating revenue growth also reflects the second quarter acquisition of MXD. Total revenue also grew in both periods from higher fuel costs passed through to customers.

EBT increased 23% and 11% in the third quarter and nine months ended September 30, 2018, respectively, reflecting higher operating results in the SCS segment, lower pension expense, a \$5 million pension settlement charge incurred in the prior year and lower professional fees, partially offset by higher depreciation due to residual value changes implemented January 1, 2018. The increase in the nine months ended September 30, 2018, was also partially offset by a first quarter goodwill impairment charge of \$16 million associated with our FMS Europe reporting unit.

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

CONSOLIDATED RESULTS

Lease and Rental

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|---------------------------|-------------------------------------|---------|------------------------------------|-----------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Lease and rental revenues | \$895,167 | 823,197 | \$2,577,444 | 2,387,801 | 9 % | 8 % |
| Cost of lease and rental | 649,407 | 588,626 | 1,904,973 | 1,745,777 | 10 % | 9 % |
| Gross margin | 245,760 | 234,571 | 672,471 | 642,024 | 5 % | 5 % |
| Gross margin % | 27 | % 28 | % 26 | % 27 | % | % |

Lease and rental revenues represent revenues from our ChoiceLease and commercial rental product offerings within our FMS segment. Revenues increased 9% to \$895 million in the third quarter and 8% to \$2.58 billion in the nine months ended September 30, 2018, driven by stronger commercial rental demand, ChoiceLease fleet growth and higher pricing on lease replacement and rental vehicles.

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 10% in the third quarter and 9% in the nine months ended September 30, 2018, primarily due to higher depreciation and maintenance costs from larger average lease and rental fleets (5% and 13% higher in the third quarter, respectively). Cost of lease and rental also increased by \$13 million in the third quarter and \$33 million in the nine months ended September 30, 2018, due to higher depreciation as a result of changes in estimated residual values effective January 1, 2018, as well as accelerated depreciation.

Lease and rental gross margin increased 5% in both the third quarter and in the nine months ended September 30, 2018. Lease and rental gross margin as a percentage of revenue decreased to 27% in the third quarter and 26% in the nine months ended September 30, 2018. The increase in gross margin dollars in the third quarter and year-to-date was primarily due to increased commercial rental utilization, reflecting stronger demand and lease fleet growth, partially offset by higher depreciation due to residual value changes as well as accelerated depreciation and higher maintenance costs on certain older model vehicles. The decrease in gross margin as a percentage of revenue in both periods reflects higher depreciation from changes in estimated residual values as well as accelerated depreciation and higher maintenance costs from certain older model vehicles. These impacts were partially offset by higher commercial rental utilization.

Services

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|------------------|-------------------------------------|---------|------------------------------------|-----------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Services revenue | \$1,106,107 | 888,613 | \$3,106,575 | 2,595,141 | 24 % | 20 % |
| Cost of services | 945,851 | 753,838 | 2,639,137 | 2,186,316 | 25 % | 21 % |

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| | | | | | | |
|----------------|---------|---------|---------|---------|-----|------|
| Gross margin | 160,256 | 134,775 | 467,438 | 408,825 | 19% | 14 % |
| Gross margin % | 14 | % 15 | % 15 | % 16 | % | |

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 24% in the third quarter and increased 20% in the nine months ended September 30, 2018. The increase in the third quarter was largely driven by increased volumes and new business in SCS and DTS. The increase year-to-date was largely driven by new business and increased volumes in SCS and DTS. The increase in both periods also reflects the second quarter acquisition of MXD in SCS, increased volumes in SelectCare in the FMS segment and higher pricing in SCS. Services revenue also benefited from higher fuel prices passed through to our DTS and SCS customers.

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

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

maintenance costs. Cost of services increased 25% in the third quarter of 2018 and 21% in the nine months ended September 30, 2018, due to higher volumes and higher fuel costs in SCS and DTS, as well as higher costs incurred during the start-up phase of a new customer in DTS.

Services gross margin increased 19% in the third quarter and increased 14% in the nine months ended September 30, 2018. Service gross margin as a percentage of revenue decreased to 14% in the third quarter and decreased to 15% in the nine months ended September 30, 2018. The increase in gross margin dollars reflects revenue growth. The decrease in gross margin as a percentage of revenue in the third quarter and the nine months ended September 30, 2018, primarily reflects higher fuel costs passed through to customers and a change in the mix of business.

Fuel

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|-----------------------|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Fuel services revenue | \$ 156,787 | 129,087 | \$ 466,847 | 382,966 | 21 % | 22 % |
| Cost of fuel services | 153,420 | 124,562 | 455,874 | 372,016 | 23 % | 23 % |
| Gross margin | 3,367 | 4,525 | 10,973 | 10,950 | (26)% | — % |
| Gross margin % | 2 | % 4 | % 2 | % 3 | % | % |

Fuel services revenue represents fuel services provided to our FMS customers. Fuel services revenue increased 21% in the third quarter and increased 22% in the nine months ended September 30, 2018, 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 23% in the third quarter and in the nine months ended September 30, 2018, as a result of higher fuel costs.

Fuel services gross margin decreased 26% in the third quarter and remained at \$11 million in the nine months ended September 30, 2018. Fuel services gross margin as a percentage of revenue decreased to 2% in both the third quarter of 2018 and in the nine months ended September 30, 2018. 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. Fuel services gross margin in the third quarter of 2018 was negatively impacted by these price change dynamics as fuel prices fluctuated during the period.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--------------------------|--|--------|---------------------------------------|--------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Other operating expenses | \$ 30,344 | 28,445 | \$ 94,760 | 87,122 | 7 % | 9 % |

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 7% in the third quarter of 2018, due to higher facility maintenance costs, and to a lesser extent, higher FMS facilities costs due to growth. Other operating expenses also increased in the nine months ended September 30, 2018, due to weather-related utility costs for FMS facilities.

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

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|---|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Selling, general and administrative expenses (SG&A) | \$215,506 | 212,249 | \$637,282 | 614,809 | 2 % | 4 % |
| Percentage of total revenue | 10 | % 12 | % 10 | % 11 | % | |

SG&A expenses increased 2% in the third quarter and 4% in the nine months ended September 30, 2018, due to higher compensation-related expenses, partially offset by the benefit from cost savings initiatives implemented during 2018. SG&A expenses as a percentage of total revenue decreased to 10% in the third quarter and year-to-date, which primarily reflects the benefit from cost savings initiatives.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|-----------------------------|---|-------|---------------------------------------|--------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Non-operating pension costs | \$1,161 | 6,958 | \$3,241 | 20,875 | (83)% | (84)% |

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 \$6 million in the third quarter and \$18 million in the nine months ended September 30, 2018, due to the benefit of favorable asset returns in 2017 and lower interest rates.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|-------------------------|--|-------|------------------------------------|----------|------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Used vehicle sales, net | \$(3,012) | 2,727 | \$(16,434) | (11,815) | NM | 39 % |

Used vehicle sales, net includes gains from sales of used vehicles, selling costs associated with used vehicles and write-downs of vehicles to fair market values. Used vehicle sales, net decreased to a \$3 million loss in the third quarter of 2018, due to lower units sold and higher inventory valuation adjustments due to more challenging prior year comparisons. Used vehicle sales, net decreased to a \$16 million loss in the nine months ended September 30, 2018, primarily due to lower gains from sales of used vehicles due to the mix and volume of units sold in the current year, partially offset by lower inventory valuation adjustments year-to-date.

Global average proceeds per unit in the third quarter and in the nine months ended September 30, 2018, increased for both tractors and trucks primarily due to a higher mix of retail sales, as well as lower average age of vehicles sold and improved market pricing. The following table presents the used vehicle pricing changes for the third quarter of 2018

and in the nine months ended September 30, 2018 compared with the prior year:

Proceeds per
unit change
2018/2017
Three Nine
months~~months~~

Tractors 22 % 10 %
Trucks 15 % 9 %

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

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|-------------------------|-------------------------------------|--------|------------------------------------|---------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Interest expense | \$47,379 | 34,854 | \$127,529 | 104,591 | 36% | 22% |
| Effective interest rate | 3.1% | 2.6% | 2.9% | 2.6% | | |

Interest expense increased 36% in the third quarter of 2018 and 22% in the nine months ended September 30, 2018, reflecting a higher effective interest rate and higher average outstanding debt. The higher effective interest rate in 2018 reflects the impact of a rising interest rate environment. The increase in average outstanding debt reflects higher planned vehicle capital spending as well as acquisitions.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|---------------------------|---|-------|---------------------------------------|--------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Miscellaneous income, net | \$4,472 | 4,655 | \$10,609 | 15,062 | (4)% | (30)% |

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 losses and other non-operating items. Miscellaneous income, net slightly decreased in the third quarter of 2018. The decrease in the nine months ended September 30, 2018, is primarily driven by gains on sales of properties in the prior year of \$4 million.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--------------------------------------|---|-------|---------------------------------------|-------|------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Restructuring and other charges, net | \$ 313 | 4,255 | \$ 19,722 | 1,681 | NM | NM |

Refer to Note 16, "Other Items Impacting Comparability," in the Notes to the Consolidated Condensed Financial Statements for a discussion of restructuring charges and fees, net.

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|-------------------------------------|------|------------------------------------|------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |

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| | | | | | | |
|---|----------|--------|----------|--------|-------|------|
| Provision for income taxes | \$26,629 | 35,452 | \$95,561 | 86,997 | (25)% | 10 % |
| Effective tax rate from continuing operations | 22.9 | % 37.5 | % 36.4 | % 36.9 | % | |

Provision for income taxes decreased 25% in the third quarter, reflecting a lower federal tax rate due to Tax Reform, as well as a \$2 million tax benefit resulting from a state tax law change, partially offset by higher earnings. Provision for income taxes increased 10% in the nine months ended September 30, 2018, primarily reflecting a second quarter additional tax provision recorded to adjust the provisional estimate for the one-time transition tax, as well as higher earnings, partially offset by a lower federal tax rate due to Tax Reform.

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

OPERATING RESULTS BY SEGMENT

| | Three months ended | | Nine months ended | | Change | |
|---|------------------------|------------|-------------------|------------|--------------|-------------|
| | September 30, | | September 30, | | 2018/2017 | |
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Total Revenue: | | | | | | |
| Fleet Management Solutions | \$1,336,548 | 1,195,797 | \$3,874,580 | 3,491,846 | 12 % | 11 % |
| Dedicated Transportation Solutions | 340,604 | 272,201 | 970,196 | 811,277 | 25 | 20 |
| Supply Chain Solutions | 628,544 | 488,506 | 1,727,775 | 1,405,823 | 29 | 23 |
| Eliminations | (147,635) | (115,607) | (421,685) | (343,038) | 28 | 23 |
| Total | \$2,158,061 | 1,840,897 | \$6,150,866 | 5,365,908 | 17 % | 15 % |
| Operating Revenue: ⁽¹⁾ | | | | | | |
| Fleet Management Solutions | \$1,122,014 | 1,026,010 | \$3,241,009 | 2,986,791 | 9 % | 9 % |
| Dedicated Transportation Solutions | 222,245 | 197,917 | 637,483 | 591,045 | 12 | 8 |
| Supply Chain Solutions | 462,796 | 376,382 | 1,275,690 | 1,096,900 | 23 | 16 |
| Eliminations | (89,887) | (74,904) | (254,961) | (220,968) | 20 | 15 |
| Total | \$1,717,168 | 1,525,405 | \$4,899,221 | 4,453,768 | 13 % | 10 % |
| EBT: | | | | | | |
| Fleet Management Solutions | \$95,153 | 100,803 | \$217,851 | 221,200 | (6)% | (2)% |
| Dedicated Transportation Solutions | 13,929 | 13,734 | 45,433 | 39,834 | 1 | 14 |
| Supply Chain Solutions | 37,365 | 22,093 | 101,283 | 76,188 | 69 | 33 |
| Eliminations | (16,063) | (14,464) | (44,644) | (38,053) | 11 | 17 |
| | 130,384 | 122,166 | 319,923 | 299,169 | 7 | 7 |
| Unallocated Central Support Services | (12,770) | (11,007) | (34,437) | (32,986) | 16 | 4 |
| Non-operating pension costs | (1,161) | (6,958) | (3,241) | (20,875) | NM | NM |
| Restructuring and other items, net | (313) | (9,709) | (19,722) | (9,340) | NM | NM |
| Earnings from continuing operations before income taxes | \$116,140 | 94,492 | \$262,523 | 235,968 | 23 % | 11 % |

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, "Other Items Impacting Comparability," in the Notes to Consolidated Condensed Financial Statements. CSS represents those costs incurred to support all segments, including human resources, finance and procurement, 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. See Note 19, "Segment Reporting," in the Notes to Consolidated Condensed Financial Statements for a description of the methodology for allocating the remainder of CSS costs to the business 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 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 segments:

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|------------------------------------|----------------------------------|--------|---------------------------------|--------|------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| (Dollars in thousands) | | | | | | |
| Equipment Contribution: | | | | | | |
| Dedicated Transportation Solutions | \$8,940 | 8,320 | \$25,349 | 22,532 | 7 % | 13 % |
| Supply Chain Solutions | 7,123 | 6,144 | 19,295 | 15,521 | 16 | 24 |
| Total ⁽¹⁾ | \$16,063 | 14,464 | \$44,644 | 38,053 | 11 % | 17 % |

(1) Total amount is included in FMS EBT.

The increase in DTS and SCS equipment contribution for the three and nine months ended September 30, 2018, is primarily driven by higher volumes and pricing.

Items excluded from our segment EBT measure and their classification within our Consolidated Condensed Statements of Earnings follow:

| Description | Classification | Three months ended September 30, | | Nine months ended September 30, | |
|---|--------------------------------------|----------------------------------|----------|---------------------------------|-----------|
| | | 2018 | 2017 | 2018 | 2017 |
| (In thousands) | | | | | |
| Non-operating pension costs ⁽¹⁾ | Non-operating pension costs | \$(1,161) | (6,958) | \$(3,241) | (20,875) |
| Restructuring and other, net ⁽²⁾ | Restructuring and other charges, net | (313) | (4,255) | (4,209) | (1,681) |
| Goodwill impairment ⁽²⁾ | Restructuring and other charges, net | — | — | (15,513) | — |
| Pension settlement charge ⁽²⁾ | SG&A | — | (5,454) | — | (5,454) |
| Operating tax adjustment ⁽²⁾ | SG&A | — | — | — | (2,205) |
| | | \$ (1,474) | (16,667) | \$(22,963) | (30,215) |

(1) See Note 19, "Segment Reporting," in the Notes to Consolidated Condensed Financial Statements for additional information.

(2) See Note 16, "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 September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|-------------------------------------|-----------|------------------------------------|-----------|---------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| ChoiceLease | \$716,728 | 673,882 | \$2,107,938 | 1,992,656 | 6 % | 6 % |
| SelectCare | 125,850 | 116,985 | 372,989 | 347,978 | 8 | 7 |
| Commercial Rental | 257,909 | 216,016 | 694,864 | 589,362 | 19 | 18 |
| Other | 21,527 | 19,127 | 65,218 | 56,795 | 13 | 15 |
| Fuel services revenue | 214,534 | 169,787 | 633,571 | 505,055 | 26 | 25 |
| FMS total revenue ⁽¹⁾ | \$1,336,548 | 1,195,797 | \$3,874,580 | 3,491,846 | 12 % | 11 % |
| | | | | | | |
| FMS operating revenue ⁽²⁾ | \$1,122,014 | 1,026,010 | \$3,241,009 | 2,986,791 | 9 % | 9 % |
| | | | | | | |
| FMS EBT | \$95,153 | 100,803 | \$217,851 | 221,200 | (6)% | (2)% |
| FMS EBT as a % of FMS total revenue | 7.1 | % 8.4 | % 5.6 | % 6.3 | % | (130) (70) bps bps |
| FMS EBT as a % of FMS operating revenue ⁽²⁾ | 8.5 | % 9.8 | % 6.7 | % 7.4 | % | (130) (70) bps 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 ended September 30, 2018 | | Nine months ended September 30, 2018 | |
|-------------------------------------|--|-----------------------------|---|-----------------------------|
| | Total | Operating ⁽¹⁾ | Total | Operating ⁽¹⁾ |
| Organic, including price and volume | 8 % | 9 % | 7 % | 8 % |
| Fuel | 4 | — | 4 | — |
| Foreign exchange | — | — | — | 1 |
| Net increase | 12 % | 9 % | 11 % | 9 % |

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 \$1.34 billion in the third quarter and increased to \$3.87 billion the nine months ended September 30, 2018, due to higher operating revenue and higher fuel costs passed through to customers. FMS operating revenue in the third quarter increased to \$1.12 billion and increased to \$3.24 billion in the nine months ended September 30, 2018, from the prior year periods primarily from growth in the commercial rental and ChoiceLease product lines.

ChoiceLease revenue increased 6% in both the third quarter and the nine months ended September 30, 2018, reflecting a larger average fleet size and higher prices on replacement vehicles. We expect favorable ChoiceLease revenue comparisons to continue through the end of the year based on strong sales activity. Commercial rental revenue increased 19% in the third quarter and 18% in the nine months ended September 30, 2018, due to stronger demand and higher pricing. We expect favorable commercial rental revenue comparisons through the end of the year based on a strong demand environment. Fuel services revenue increased 26% and 25% in the third quarter and the nine months ended September 30, 2018, respectively, primarily reflecting higher fuel costs passed through to customers. SelectCare revenue increased 8% in the third quarter and 7% in the nine months ended September 30, 2018, due to increased volumes.

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 September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Rental revenue from non-lease customers | \$149,746 | 138,887 | \$413,579 | 372,853 | 8 % | 11 % |
| Rental revenue from lease customers ⁽¹⁾ | \$108,163 | 77,128 | \$281,285 | 216,500 | 40 % | 30 % |
| Average commercial rental power fleet size — in service (2) (3) | 34,200 | 30,100 | 32,100 | 29,600 | 14 % | 8 % |
| Commercial rental utilization — power fleet | 80.4 | % 78.0 | % 78.3 | % 73.7 | % 240 bps | 460 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 6% in the third quarter as higher commercial rental and ChoiceLease results were more than offset by higher depreciation of \$13 million due to vehicle residual value changes implemented January 1, 2018 and accelerated depreciation, as well as lower used vehicle sales results. Used vehicle sales results primarily reflect lower units sold and higher inventory valuation adjustments due to more challenging prior year comparisons. Commercial rental performance improved due to increased utilization reflecting stronger demand as well as higher pricing. Rental power fleet utilization was 80.4% for the third quarter, up 240 basis points from the prior year. Lease results benefited from fleet growth but were partially offset by higher maintenance costs on certain older model year vehicles.

FMS EBT decreased 2% in the nine months ended September 30, 2018, reflecting higher depreciation of \$33 million due to residual value changes and accelerated depreciation; higher compensation-related expenses, including commissions paid to fund growth; unfavorable self-insurance developments; and lower used vehicle sales results. Used vehicle sales comparisons in the nine months ended September 30, 2018, primarily reflect lower gains from sales of used vehicles due to the mix and volume of units sold, partially offset by lower inventory valuation adjustments. These negative impacts to FMS EBT were partially offset by higher commercial rental and ChoiceLease results, as well as cost savings initiatives implemented during 2018. Commercial rental performance improved due to increased utilization reflecting stronger demand and higher pricing. Commercial rental utilization increased 460 bps to 78.3% in the nine months ended September 30, 2018. ChoiceLease results benefited from fleet growth. ChoiceLease and commercial rental results were negatively impacted by higher maintenance costs on certain older model vehicles.

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

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

| | September 30, 2018 | December 31, 2017 | September 30, 2017 | Change | | | |
|---|-----------------------|----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| | | | | Sept. 2018/ 2017 | Sept. 2018/ 2017 | Sept. 2018/ 2017 | Sept. 2018/ 2017 |
| End of period vehicle count | | | | | | | |
| By type: | | | | | | | |
| Trucks ⁽¹⁾ | 81,200 | 76,400 | 75,700 | 6 | % | 7 | % |
| Tractors ⁽²⁾ | 71,000 | 66,000 | 65,600 | 8 | | 8 | |
| Trailers ⁽³⁾ | 43,900 | 42,600 | 42,200 | 3 | | 4 | |
| Other | 1,200 | 1,200 | 1,200 | — | | — | |
| Total | 197,300 | 186,200 | 184,700 | 6 | % | 7 | % |
| By ownership: | | | | | | | |
| Owned | 195,900 | 184,900 | 183,400 | 6 | % | 7 | % |
| Leased | 1,400 | 1,300 | 1,300 | 8 | | 8 | |
| Total | 197,300 | 186,200 | 184,700 | 6 | % | 7 | % |
| By product line: | | | | | | | |
| ChoiceLease | 145,400 | 139,100 | 137,300 | 5 | % | 6 | % |
| Commercial rental | 42,600 | 37,800 | 37,800 | 13 | | 13 | |
| Service vehicles and other | 3,100 | 3,300 | 3,300 | (6) |) | (6) |) |
| Active units | 191,100 | 180,200 | 178,400 | 6 | | 7 | |
| Held for sale | 6,200 | 6,000 | 6,300 | 3 | | (2) |) |
| Total | 197,300 | 186,200 | 184,700 | 6 | % | 7 | % |
| Customer vehicles under SelectCare contracts ⁽⁴⁾ | 56,500 | 54,400 | 54,400 | 4 | % | 4 | % |
| Quarterly average vehicle count | | | | | | | |
| By product line: | | | | | | | |
| ChoiceLease | 144,000 | 138,000 | 137,200 | 4 | % | 5 | % |
| Commercial rental | 42,300 | 37,700 | 37,600 | 12 | | 13 | |
| Service vehicles and other | 3,100 | 3,400 | 3,300 | (9) |) | (6) |) |
| Active units | 189,400 | 179,100 | 178,100 | 6 | | 6 | |
| Held for sale | 5,800 | 6,100 | 6,900 | (5) |) | (16) |) |
| Total | 195,200 | 185,200 | 185,000 | 5 | % | 6 | % |
| Customer vehicles under SelectCare contracts ⁽⁴⁾ | 56,100 | 54,300 | 52,800 | 3 | % | 6 | % |
| Customer vehicles under SelectCare on-demand ⁽⁵⁾ | 9,000 | 8,100 | 8,700 | 11 | % | 3 | % |
| Total vehicles serviced | 260,300 | 247,600 | 246,500 | 5 | % | 6 | % |

Year-to-date average vehicle count

By product line:

| | | | | | |
|---|---------|---------|---------|-------|-------|
| ChoiceLease | 141,900 | 137,600 | 137,400 | 3 % | 3 % |
| Commercial rental | 40,500 | 37,500 | 37,500 | 8 | 8 |
| Service vehicles and other | 3,200 | 3,400 | 3,400 | (6) | (6) |
| Active units | 185,600 | 178,500 | 178,300 | 4 | 4 |
| Held for sale | 5,900 | 6,700 | 6,900 | (12) | (14) |
| Total | 191,500 | 185,200 | 185,200 | 3 % | 3 % |
| Customer vehicles under SelectCare contracts ⁽⁴⁾ | 54,600 | 52,100 | 51,300 | 5 % | 6 % |
| Customer vehicles under SelectCare on-demand ⁽⁵⁾ | 18,900 | 24,500 | 20,600 | (23)% | (8)% |
| Total vehicle serviced | 265,000 | 261,800 | 257,100 | 1 % | 3 % |

(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.

(4) Excludes customer vehicles under SelectCare on-demand contracts.

(5) Comprised of the number of unique vehicles serviced under on-demand maintenance agreements for the quarterly 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, 2018 | December 31, 2017 | September 30, 2017 | Change | | |
|----------------------------------|-----------------------|----------------------|-----------------------|---------------------|----------------------------|-----------------------------|
| | | | | Sept. 2018/ 2017 | Sept. 2018/Dec. 2017 | Sept. 2018/Sept. 2017 |
| Not yet earning revenue (NYE) | 4,000 | 2,900 | 2,100 | 38 % | 90 | % |
| No longer earning revenue (NLE): | | | | | | |
| Units held for sale | 6,200 | 6,000 | 6,300 | 3 | (2 |) |
| Other NLE units | 4,500 | 3,400 | 3,900 | 32 | 15 | |
| Total | 14,700 | 12,300 | 12,300 | 20 % | 20 | % |

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. NYE units increased 90% compared to September 30, 2017, reflecting lease fleet growth. 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 increased 20% compared to September 30, 2017, primarily reflecting a higher number of commercial rental units being prepared for sale. We expect NLE levels to increase slightly through the end of the year as a result of higher expected used vehicle inventories driven by the lease vehicle replacement cycle.

Dedicated Transportation Solutions

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|-------------------------------------|---------|------------------------------------|---------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| DTS total revenue | \$340,604 | 272,201 | \$970,196 | 811,277 | 25 % | 20 % |
| DTS operating revenue ⁽¹⁾ | \$222,245 | 197,917 | \$637,483 | 591,045 | 12 % | 8 % |
| DTS EBT | \$13,929 | 13,734 | \$45,433 | 39,834 | 1 % | 14 % |
| DTS EBT as a % of DTS total revenue | 4.1 | % 5.0 | % 4.7 | % 4.9 | % (90) | (20) |
| DTS EBT as a % of DTS operating revenue ⁽¹⁾ | 6.3 | % 6.9 | % 7.1 | % 6.7 | % (60) | 40 bps |
| | | | | | bps | |
| Memo: | | | | | | |
| Average fleet | 9,000 | 8,200 | 8,800 | 8,200 | 10 % | 7 % |

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 ⁽¹⁾ 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 September 30, 2018 | | Nine months ended September 30, 2018 | |
|-------------------------------------|---|------------------|--|------------------|
| | Total | Operating (1) | Total | Operating (1) |
| Organic, including price and volume | 22 % | 12 % | 17 % | 8 % |
| Fuel | 3 | — | 3 | — |
| Net increase | 25 % | 12 % | 20 % | 8 % |

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.

DTS total revenue increased 25% third quarter and 20% in the nine months ended September 30, 2018, reflecting new business and increased volumes as well as higher fuel costs passed through to customers. DTS operating revenue increased 12% and 8% in the third quarter and the nine months ended September 30, 2018, respectively, due to new business and increased volumes. We expect revenue comparisons to remain favorable through the end of the year based on strong sales activity. DTS EBT increased 1% in the third quarter and 14% in the nine months ended September 30, 2018, due to revenue growth. DTS EBT in the third quarter was impacted by higher costs incurred during the start-up phase of a new customer account.

Supply Chain Solutions

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|-------------------------------------|---------|------------------------------------|-----------|---------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Automotive | \$165,066 | 135,806 | \$458,800 | 420,114 | 22 % | 9 % |
| Technology and healthcare | 83,553 | 68,008 | 230,320 | 194,561 | 23 | 18 |
| CPG and Retail | 170,045 | 130,528 | 459,955 | 365,185 | 30 | 26 |
| Industrial and other | 44,132 | 42,040 | 126,615 | 117,040 | 5 | 8 |
| Subcontracted transportation | 137,758 | 94,289 | 371,597 | 255,671 | 46 | 45 |
| Fuel | 27,990 | 17,835 | 80,488 | 53,252 | 57 | 51 |
| SCS total revenue | \$628,544 | 488,506 | \$1,727,775 | 1,405,823 | 29 % | 23 % |
| SCS operating revenue ⁽¹⁾ | \$462,796 | 376,382 | \$1,275,690 | 1,096,900 | 23 % | 16 % |
| SCS EBT | \$37,365 | 22,093 | \$101,283 | 76,188 | 69 % | 33 % |
| SCS EBT as a % of SCS total revenue | 5.9 | % 4.5 | % 5.9 | % 5.4 | % 140 bps | 50 bps |
| SCS EBT as a % of SCS operating revenue ⁽¹⁾ | 8.1 | % 5.9 | % 7.9 | % 6.9 | % 220 bps | 100 bps |

Memo:

| | | | | | | |
|---------------|-------|-------|-------|-------|------|------|
| Average fleet | 8,900 | 7,900 | 8,600 | 7,800 | 13 % | 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, 2018 | | Nine months ended September 30, 2018 | | | |
|-------------------------------------|---------------------------------------|--------------------------|--------------------------------------|--------------------------|--|--|
| | Total | Operating ⁽¹⁾ | Total | Operating ⁽¹⁾ | | |
| Organic, including price and volume | 16 % | 17 % | 13 % | 12 % | | |
| Fuel | 2 | — | 2 | — | | |
| Acquisitions | 11 | 6 | 8 | 4 | | |
| Net increase | 29 % | 23 % | 23 % | 16 % | | |

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.

SCS total revenue increased 29% in the third quarter and 23% in the nine months ended September 30, 2018, reflecting increased volumes and new business, the second quarter MXD acquisition, as well as higher fuel costs passed through to customers. SCS operating revenue increased 23% in the third quarter and 16% in the nine months ended September 30, 2018, primarily reflecting increased volumes, the MXD acquisition and new business. We expect favorable revenue comparisons to continue through the end of the year, reflecting strong sales and the MXD acquisition.

SCS EBT increased 69% in the third quarter and 33% in the nine months ended September 30, 2018, driven by revenue growth and better operating results across all industry verticals, including improved performance on a prior-year startup account.

Central Support Services

| | Three months ended September 30, | | Nine months ended September 30, | | Change 2018/2017 | |
|--|----------------------------------|----------|---------------------------------|-----------|------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | Three months | Nine months |
| | (Dollars in thousands) | | | | | |
| Human resources | \$4,535 | 4,076 | \$14,098 | 13,112 | 11 % | 8 % |
| Finance and procurement | 17,109 | 16,906 | 51,088 | 50,922 | 1 | — |
| Corporate services and public affairs | 2,555 | 2,735 | 7,264 | 8,028 | (7) | (10) |
| Information technology | 23,333 | 22,265 | 65,382 | 64,744 | 5 | 1 |
| Legal and safety | 6,167 | 6,129 | 18,519 | 18,693 | 1 | (1) |
| Marketing | 4,929 | 4,556 | 13,581 | 13,290 | 8 | 2 |
| Other | 10,744 | 8,314 | 27,188 | 23,619 | 29 | 15 |
| Total CSS | 69,372 | 64,981 | 197,120 | 192,408 | 7 | 2 |
| Allocation of CSS to business segments | (56,602) | (53,974) | (162,683) | (159,422) | 5 | 2 |
| Unallocated CSS | \$12,770 | 11,007 | \$34,437 | 32,986 | 16 % | 4 % |

Total CSS costs increased 7% in the third quarter and 2% in the nine months ended September 30, 2018, primarily reflecting higher compensation-related costs. Unallocated CSS increased 16% in the third quarter and 4% in the nine months ended September 30, 2018, reflecting higher compensation-related costs, partially offset by lower professional services fees.

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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 September 30, 2018 2017 (In thousands) | |
|---|--|------------|
| Net cash provided by (used in): | | |
| Operating activities | \$ 1,212,373 | 1,166,191 |
| Financing activities | 784,855 | (191,255) |
| Investing activities | (2,018,190) | (963,885) |
| Effect of exchange rates on cash, cash equivalents, and restricted cash | 1,464 | (5,226) |
| Net change in cash, cash equivalents, and restricted cash | \$(19,498) | 5,825 |

Cash provided by operating activities increased to \$1.21 billion in the nine months ended September 30, 2018, compared with \$1.17 billion in 2017, reflecting higher earnings excluding non-cash items, primarily depreciation and deferred tax expense. Cash provided by financing activities was \$785 million in the nine months ended September 30, 2018, compared with cash used in financing activities of \$191 million in 2017, due to higher borrowing needs. Cash used in investing activities increased to \$2.02 billion in the nine months ended September 30, 2018, compared with \$964 million in 2017, primarily due to increased capital expenditures.

The following table shows our free cash flow computation:

| | Nine months ended September 30, 2018 2017 (In thousands) | |
|--|--|--------------|
| Net cash provided by operating activities from continuing operations | \$ 1,212,373 | 1,166,191 |
| Sales of revenue earning equipment ⁽¹⁾ | 279,751 | 289,432 |
| Sales of operating property and equipment ⁽¹⁾ | 11,869 | 12,541 |
| Collections on direct finance leases and other items ⁽¹⁾ | 57,568 | 54,227 |
| Total cash generated ⁽²⁾ | 1,561,561 | 1,522,391 |
| Purchases of property and revenue earning equipment ⁽¹⁾ | (2,200,006) | (1,312,845) |
| Free cash flow ⁽²⁾ | \$(638,445) | 209,546 |

Memo:

| | | |
|---|---------------|------------|
| Net cash provided by (used in) financing activities | \$784,855 | (191,255) |
| Net cash used in investing activities | \$(2,018,190) | (963,885) |

(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 September 30, | |
|---|------------------------------------|-----------|
| | 2018 | 2017 |
| | (In thousands) | |
| Revenue earning equipment: | | |
| ChoiceLease | \$1,418,557 | 985,541 |
| Commercial rental | 757,867 | 295,638 |
| | 2,176,424 | 1,281,179 |
| Operating property and equipment | 119,743 | 94,850 |
| Total capital expenditures | 2,296,167 | 1,376,029 |
| Changes in accounts payable related to purchases of revenue earning equipment | (96,161) | (63,184) |
| Cash paid for purchases of property and revenue earning equipment | \$2,200,006 | 1,312,845 |

Capital expenditures increased 67% to \$2.30 billion in the nine months ended September 30, 2018, reflecting planned higher investments in the ChoiceLease and commercial rental fleets. We expect full-year 2018 capital expenditures to be approximately \$3.1 billion. We expect to fund 2018 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 notes.

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, assuming ongoing compliance with the terms and conditions of the credit facility.

Our debt ratings and rating outlooks at September 30, 2018, 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 \$61 million as of September 30, 2018. As of September 30, 2018, approximately \$20 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 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 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, 2018, we had the following amounts available to fund operations under the following facilities:

(In millions)

Global revolving credit facility \$892

Trade receivables program \$225

See Note 9, "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 September 30, 2018 2017 (In thousands) | |
|---|--|------------|
| Debt balance at January 1 | \$5,409,651 | 5,391,274 |
| Cash-related changes in debt: | | |
| Net change in commercial paper borrowings and revolving credit facilities | (113,666) | 2,153 |
| Proceeds from issuance of medium-term notes | 1,192,491 | 595,785 |
| Proceeds from issuance of other debt instruments | 275,037 | 277,517 |
| Retirement of medium term notes | (350,000) | (700,000) |
| Other debt repaid | (116,081) | (238,160) |
| Debt issuance costs paid | (2,824) | (1,379) |
| | 884,957 | (64,084) |
| Non-cash changes in debt: | | |
| Fair value adjustment on notes subject to hedging | (8,934) | (3,168) |
| Addition of capital lease obligations | 2,134 | 6,209 |
| Changes in foreign currency exchange rates and other non-cash items | (4,698) | 18,995 |
| Total changes in debt | 873,459 | (42,048) |
| | \$6,283,110 | 5,349,226 |

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 25% and 31% as of September 30, 2018 and December 31, 2017.

Refer to Note 9, "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 under our shelf registration statement, asset-backed financing obligations and debt maturities.

Ryder's debt to equity ratios were 215% and 191% as of September 30, 2018 and December 31, 2017, respectively. The debt to equity ratio represents total debt divided by total equity.

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

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 we may, from time to time, make voluntary contributions to our pension plans, which exceed the amounts required by statute. In 2018, the expected total contributions to our pension plans are approximately \$27 million. During the nine months ended September 30, 2018, we contributed \$23 million to our pension plans. Changes in interest rates and the market value of the securities held by the plans during 2018 could materially change, positively or negatively, the funded status of the plans and affect the level of pension expense and contributions in 2018 and beyond. See Note 15, "Employee Benefit Plans," in the Notes to Consolidated Condensed Financial Statements for additional information.

Share Repurchases and Cash Dividends

See Note 11, "Share Repurchase Programs," in the Notes to Consolidated Condensed Financial Statements for a discussion of share repurchases.

In October 2018, our Board of Directors declared a quarterly cash dividend of \$0.54 per 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.

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

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 (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 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 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 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 Income Tax | Earnings Before Income 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 income tax (EBT)

Comparable earnings

Comparable earnings per diluted common share (EPS)

Comparable

EBT,

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 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, interest

cost and

expected return on plan assets components of pension and postretirement 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 items that are not representative of our business operations as detailed in the reconciliation table below - page 53. These other items vary from period to period and, in some periods, there may be no such items. In the three and nine month periods ended September 30, 2018, we exclude the following other significant items from our

comparable
earnings
measures in
this Form
10-Q:

(1) Goodwill
impairment: In
the first quarter
of 2018, we
recorded an
impairment
charge of
\$16 million for
all goodwill in
the FMS
Europe
reporting unit.

(2) Uncertain
tax position
adjustment: In
first quarter of
2018, we
determined
that certain
uncertain tax
positions
should have
been reversed
in prior periods
when the
statutes of
limitations
expired and
recorded a \$3
million benefit
to our
provision for
income taxes.
In the third
quarter of
2018, we
recorded an
additional \$1
million benefit
to our
provision for
income taxes.

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

(3) Tax Reform-related and other tax adjustments: In the three and nine months ended September 30, 2018, we recorded \$0.1 million and \$0.5 million of Tax Reform related professional fees, respectively, and \$0.7 million net benefit related to the Tax Reform one-time employee bonus accrued as of December 31, 2017. In the second quarter of 2018, we also recorded a \$29 million adjustment to increase the provisional estimate related to the one-time transition tax under Tax Reform and a \$1 million deferred tax liability adjustment related to the prior provisional

estimate from Tax Reform. In the second quarter of 2018, several states enacted changes to their tax systems, which decreased the provision for income taxes by \$0.8 million. In the third quarter of 2018, we recorded a tax benefit of \$2 million for an additional state tax law change. In the third quarter of 2017, the state of Illinois enacted changes to their tax system, which increased the provision for income taxes by \$2 million.

(4)

Restructuring and other, net: In the second quarter of 2018, we committed to a plan to shutdown our Singapore business operations and recognized employee termination costs of \$0.6 million in third quarter of 2018 and \$3 million in the nine months ended

September 30, 2018. In the three and nine months ended September 30, 2018, our results reflect acquisition transaction costs and restructuring charges of \$0.4 million and \$3 million, respectively. During the third quarter and the nine months ended September 30, 2018, we recorded restructuring and other charges of \$1 million and \$3 million, respectively, primarily related to professional fees and adjustments to the restructuring accrual recorded as of December 31, 2017. During the three and nine months ended September 30, 2018, we realized restructuring credits of \$2 million and \$4 million, respectively, related to the

gains on sale of certain UK facilities that were closed as part of prior year restructuring activities. In the third quarter of 2017, we recorded consulting fees of \$4 million associated with a cost-savings program partially offset by restructuring credits of \$3 million related to the gains on sale of certain UK facilities realized during the second quarter of 2017.

(5) Operating tax adjustment: In the first quarter of 2017, we recorded a one-time charge of \$2 million related to operating tax expenses that had not been recognized in prior period earnings.

(6) 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.

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 and
operating
property and
equipment, (3)
collections on
direct finance
leases and (4)
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 and operating property and equipment, (3) collections on direct finance leases and (4) other cash inflows from investing activities, less (5) 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 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 nine months ended September 30, 2018 and 2017, 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 | |
|--|--|---------|-----------|---------|-------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Three months ended September 30, | (In thousands, except per share amounts) | | | | | |
| EBT/Earnings/EPS | \$116,140 | 94,492 | \$89,511 | 59,040 | \$1.69 | 1.12 |
| Non-operating pension costs | 1,161 | 6,958 | 572 | 4,019 | 0.01 | 0.08 |
| Restructuring and other, net | 313 | 4,255 | (3) | 2,740 | — | 0.05 |
| Tax law change | — | — | (2,190) | 1,844 | (0.04) | 0.03 |
| Uncertain tax position adjustment | — | — | (1,132) | — | (0.02) | — |
| Pension settlement charge | — | 5,454 | — | 3,304 | — | 0.06 |
| Comparable EBT/Earnings/EPS | \$117,614 | 111,159 | \$86,758 | 70,947 | \$1.64 | 1.34 |
| Nine months ended September 30, | | | | | | |
| EBT/Earnings/EPS | \$262,523 | 235,968 | \$166,962 | 148,971 | \$3.15 | 2.80 |
| Non-operating pension costs | 3,241 | 20,875 | 1,506 | 12,065 | 0.03 | 0.24 |
| Goodwill impairment | 15,513 | — | 15,513 | — | 0.29 | — |
| Restructuring and other, net | 4,209 | 1,681 | 3,291 | 655 | 0.07 | 0.01 |
| Tax Reform-related and other tax adjustments | — | — | 30,085 | — | 0.57 | — |
| Uncertain tax position adjustment | — | — | (4,382) | — | (0.08) | — |
| Tax law changes | — | — | (3,020) | 1,844 | (0.06) | 0.03 |
| Operating tax adjustment | — | 2,205 | — | 1,677 | — | 0.03 |
| Pension settlement charge | — | 5,454 | — | 3,303 | — | 0.06 |
| Comparable EBT/Earnings/EPS | \$285,486 | 266,183 | \$209,955 | 168,515 | \$3.97 | 3.17 |

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, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in thousands) | | | |
| Provision for income taxes ⁽¹⁾ | \$(26,629) | (35,452) | \$(95,561) | (86,997) |
| Income tax effects of non-GAAP adjustments ⁽¹⁾ | (4,227) | (4,760) | 20,030 | (10,671) |
| Comparable provision for income taxes ⁽¹⁾ | \$(30,856) | (40,212) | \$(75,531) | (97,668) |

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, 2018:

| | Nine months ended September 30, | |
|--|------------------------------------|--------------|
| | 2018 | 2017 |
| | (In thousands) | |
| Net cash provided by operating activities from continuing operations | \$1,212,373 | 1,166,191 |
| Sales of revenue earning equipment ⁽¹⁾ | 279,751 | 289,432 |
| Sales of operating property and equipment ⁽¹⁾ | 11,869 | 12,541 |
| Collections on direct finance leases and other items ⁽¹⁾ | 57,568 | 54,227 |
| Total cash generated ⁽²⁾ | 1,561,561 | 1,522,391 |
| Purchases of property and revenue earning equipment ⁽¹⁾ | (2,200,006) | (1,312,845) |
| Free cash flow ⁽²⁾ | \$(638,445) | 209,546 |

Memo:

| | | |
|---|---------------|------------|
| Net cash provided by (used in) financing activities | \$784,855 | (191,255) |
| Net cash used in investing activities | \$(2,018,190) | (963,885) |

(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.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Total revenue | \$2,158,061 | 1,840,897 | \$6,150,866 | 5,365,908 |
| Fuel | (222,367) | (175,106) | (655,211) | (519,979) |
| Subcontracted transportation | (218,526) | (140,386) | (596,434) | (392,161) |
| Operating revenue | \$1,717,168 | 1,525,405 | \$4,899,221 | 4,453,768 |

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 September 30, | | Nine months ended September 30, | |
|-----------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| FMS total revenue | \$1,336,548 | 1,195,797 | \$3,874,580 | 3,491,846 |
| Fuel ⁽¹⁾ | (214,534) | (169,787) | (633,571) | (505,055) |
| FMS operating revenue | \$1,122,014 | 1,026,010 | \$3,241,009 | 2,986,791 |
| FMS EBT | \$95,153 | 100,803 | \$217,851 | 221,200 |

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| | | | | | |
|---|-----|-------|-------|-------|---|
| FMS EBT as a % of FMS total revenue | 7.1 | % 8.4 | % 5.6 | % 6.3 | % |
| FMS EBT as a % of FMS operating revenue | 8.5 | % 9.8 | % 6.7 | % 7.4 | % |

(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 | | Nine months ended | | |
|---|--------------------|-----------|-------------------|------------|---|
| | September 30, | | September 30, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| | (In thousands) | | | | |
| DTS total revenue | \$340,604 | 272,201 | \$970,196 | 811,277 | |
| Subcontracted transportation | (80,768) | (46,097) | (224,837) | (136,490) | |
| Fuel | (37,591) | (28,187) | (107,876) | (83,742) | |
| DTS operating revenue | \$222,245 | 197,917 | \$637,483 | 591,045 | |
| DTS EBT | \$13,929 | 13,734 | \$45,433 | 39,834 | |
| DTS EBT as a % of DTS total revenue | 4.1 | % 5.0 | % 4.7 | % 4.9 | % |
| DTS EBT as a % of DTS operating revenue | 6.3 | % 6.9 | % 7.1 | % 6.7 | % |

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 | | Nine months ended | | |
|---|--------------------|-----------|-------------------|------------|---|
| | September 30, | | September 30, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| | (In thousands) | | | | |
| SCS total revenue | \$628,544 | 488,506 | \$1,727,775 | 1,405,823 | |
| Subcontracted transportation | (137,758) | (94,289) | (371,597) | (255,671) | |
| Fuel | (27,990) | (17,835) | (80,488) | (53,252) | |
| SCS operating revenue | \$462,796 | 376,382 | \$1,275,690 | 1,096,900 | |
| SCS EBT | \$37,365 | 22,093 | \$101,283 | 76,188 | |
| SCS EBT as a % of SCS total revenue | 5.9 | % 4.5 | % 5.9 | % 5.4 | % |
| SCS EBT as a % of SCS operating revenue | 8.1 | % 5.9 | % 7.9 | % 6.9 | % |

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 revenue and fleet growth and commercial rental revenue and demand;
- our expectations in our DTS and SCS business segments regarding anticipated operating revenue trends, sales activity and growth rates;
- our expectations of the long-term residual values of revenue earning equipment;
- the anticipated increase in NLE vehicles in inventory through the end of the year;
- the expected pricing and inventory levels for used vehicles;
- our expectations of operating cash flow and capital expenditures through the end of 2018;
- 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 anticipated timing of payment of restructuring liabilities;
- the adequacy of 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 statements. 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 and financial markets

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 demand for, or ability to purchase, our services

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 our financial results

Competition:

Advances in technology may impact demand for our services or may require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments

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 used vehicle sales pricing levels and fluctuations in the anticipated proportion of retail versus wholesale sales
- 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 prices for vehicles, diesel engines and fuel as a result of new environmental standards
- 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 or regulatory proceedings or uncertain positions
- Business interruptions or expenditures due to severe weather or natural occurrences

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

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 or expense 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

Other risks detailed from time to time in our SEC filings including our 2017 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, 2017. Please refer to the 2017 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 2018, 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 2018, 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 nine months ended September 30, 2018, 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 1A. RISK FACTORS

Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 20, 2018 and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, filed with the SEC on May 2, 2018, contain a discussion of our risk factors. Our operations could also be affected by additional risk factors that are not presently known to us or by factors that we currently consider immaterial to our business. To our knowledge and except to the extent additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors, there have been no material changes in the risk factors described in "Item 1A. Risk Factors" in our Form 10-K for the year ended December 31, 2017, filed with the SEC on February 20, 2018 and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 30, 2018, filed with the SEC on May 2, 2018.

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, 2018:

| | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares That May Yet Be Purchased Under the Anti-Dilutive Program ⁽²⁾ |
|------------------------------|---|------------------------------------|--|---|
| July 1 through July 31, 2018 | 29 | \$ 72.31 | — | 1,265,605 |

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| | | | | |
|--|---------|----------|---------|-----------|
| August 1 through August 31, 2018 | 91,230 | 78.15 | 91,164 | 1,174,441 |
| September 1 through September 30, 2018 | 43,644 | 77.13 | 43,330 | 1,131,111 |
| Total | 134,903 | \$ 77.82 | 134,494 | |

(1) During the three months ended September 30, 2018, we purchased an aggregate of 409 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.

(2) In December 2017, 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 up to 1.5 million shares of common stock, the sum of which will not exceed the number of shares issued to employees under the Company's employee stock plans from December 31, 2017 to December 13, 2019. 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 the Company 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.

ITEM 6. EXHIBITS

Exhibit
Number Description

- 10.1 Transition and Retention Agreement, by and between Ryder System, Inc. and Art A. Garcia (incorporated by reference to the Company's Form 8-K filed with the Commission on September 25, 2018)
- 10.2 Second Amended and Restated Global Revolving Credit Agreement, dated as of September 28, 2018, by and among Ryder System, Inc., certain subsidiaries, and the lenders and agents named therein (incorporated by reference to the Company's Form 8-K filed with the Commission on October 3, 2018)
- 10.3 Form of Terms and Conditions Applicable to Deferred Stock Awards for Non-Employee Directors issued under the Amended and Restated Ryder System, Inc. 2012 Equity and Incentive Compensation Plan
- 12 Calculation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Robert E. Sanchez pursuant to Rule 13a-14(a) or Rule 15d-14(a)
- 31.2 Certification of Art A. Garcia pursuant to Rule 13a-14(a) or Rule 15d-14(a)
- 32 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

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 26, 2018 By: /s/ Art A. Garcia
Art A. Garcia
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: October 26, 2018 By: /s/ Frank Mullen
Frank Mullen
Vice President and Controller
(Principal Accounting Officer)