

Analysis of Sales/Earnings

Updating Model; Lots of Moving Parts; Bottom Line Unchanged

In this note, we provide updated estimates for Ryder, and while assumptions have changed with respect to various line items on the income statement, the end result is we are slightly reducing our 2014 and 2015 EPS estimates from \$5.41 and \$6.03 to \$5.40 and \$6.00, respectively. The company reported better-than-expected 4Q13 earnings (an adjusted \$1.35 vs. Street at \$1.29), driven by solid top-line growth and a 110bp yly improvement in its core FMS segment's pre-tax operating margin. We continue to like R as a steady earnings grower the next couple of years, as the company is subject to less capacity risk than other transports in our coverage and has the benefit of outsourcing trends aiding revenue growth.

- While much of 4Q13 went as we expected, outperformance was particularly seen in used vehicle sales and commercial rental activity.
- Ryder expects full-service leasing growth of 5% y/y in 2014 – highest since 2007 - due to new wins, strong replacements, and higher pricing.
- The company's On-Demand maintenance product, tucked into the contract-related maintenance line item, is a small but fast-growing service that is expected to add ~2% to EPS growth this year. On-Demand currently has 10 customers and did \$12mm-\$13mm in 2013 revenue. Management expects to double the customer base in 2014, contributing an incremental \$0.11-\$0.12 to 2014 EPS.
- Since peaking in June 2012, the average age of Ryder's lease fleet has been declining, falling four months last year to ~45-46 month average age. With replacements to continue strong in 2014, we expect the average age to drop another four months or so. The company then expects it to stabilize around 41-42 months (implying an approximate 3.5 year average age). *Therefore, we believe Ryder could hit or surpass prior peak FMS margin levels in 2015, once the age headwinds disappear.*
- Miles/vehicle/day of U.S. leased vehicles rose 1% y/y (back to normal levels) in 4Q13. This is good news for margins, as Ryder is again receiving the variable revenue expected when lease deals were signed.
- Average lease term increased 9 months in the last two years – good news, because it indicates more customers are renewing contracts with new equipment rather than extending existing contracts with older equipment.
- We updated our model to account for more revenue growth in 2014 (especially in commercial rental) and slightly better margins at FMS, offset by a higher sharecount, as the company said it would rather keep some dry powder for acquisitions than restart its discretionary buyback program. SCS estimates stay roughly the same.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$84.00
FY13A EPS (Net)	\$4.82	\$4.88
FY14E EPS (Net)	\$5.41	\$5.40
FY13A Rev (Net)	\$6.44B	\$6.42B
FY14E Rev (Net)	\$6.68B	\$6.73B

Price (02/04/14):	\$69.52
52-Week Range:	\$75 – \$53
Market Cap.(mm):	3,656.8
Shr.O/S-Diluted (mm):	52.6
Enterprise Val. (mm):	\$7,784.1
Avg Daily Vol (3 Mo):	494,682
LT Debt/Total Cap.:	68.8%
Net Cash/Share:	\$0.00
Book Value/Share:	\$36.07
Dividend(\$ / %)	\$1.36 / 2.0%
S&P Index	1,755.20

Historical EPS exclude non-operating pension costs

EPS (Net)	2012A	2013A	2014E
Q1	\$0.84	\$0.81	\$0.98
Q2	1.09	1.25	1.40
Q3	1.38	1.46	1.56
Q4	1.01	1.35	1.46
FY Dec	\$4.38A	\$4.88A	\$5.40
P/E	15.9x	14.2x	12.9x

Rev (Net)	2012A	2013A	2014E
FY Dec	\$6.26B	\$6.42B	\$6.73B

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Target Price Methodology/Risks

Our current 12-month target price is \$84, or 14x our 2015 EPS estimate of \$6.00.

Risks to Price Target

Economic recession; poor pension performance; inability to retain full-service leasing customers; intensified pricing competition in rental and leasing market; exit of large customer(s) from SCS unit; failure to realize acquisition synergies; misguided or poorly executed acquisitions, reversal of private fleet outsourcing trend, drop in used truck values, significant increase in driver wages, and/or lack of driver availability.

Company Description

Ryder System, Inc. is a leading provider of outsourced services in transportation and logistics worldwide (but mainly N. America and the UK). Ryder's product offerings include: Fleet Management Solutions (FMS), which provides leasing, rental and programmed maintenance of trucks, tractors and trailers to commercial customers; and Supply Chain Solutions (SCS), which manages the movement of materials and related information from the acquisition of raw materials to the delivery of finished products to end-users as well as dedicated turn-key transportation service that includes vehicles, drivers, routing and scheduling.

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Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Closing Price 2/4/2014	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of			Enterprise value as a multiple of				TTM ROA	TTM ROE	TTM ROIC	PEG ratio ^(d)	Div. Yield	2014E FCF Yld		
								Earnings per Share			Book value	TTM Revenue	2014E EBITDA	TTM EBITDA							TTM EBITDAR ^(c)	TTM EBIT
Equipment Suppliers and Leasing Companies:																						
American Railcar Industries (ARII)	Hold	47.94	21.4	1,023.6	196.4	115.0	1,105.0	15.7x	12.2x	11.3x	2.5x	1.5x	6.0x	6.3x	6.3x	7.5x	11.7%	22.8%	16.0%	1.0	2.1%	NM
GATX Corp. (GMT)	Hold	56.47	47.5	2,682.0	3,871.0	418.0	6,135.0	20.1x	16.1x	14.3x	1.9x	4.6x	11.2x	12.0x	10.8x	24.7x	2.6%	12.5%	6.8%	1.2	2.3%	-7.3%
Greenbrier (GBX)	Buy	34.36	27.1	932.8	411.5	90.2	1,254.1	17.7x	15.4x	12.2x	1.9x	0.7x	5.5x	7.0x	6.9x	9.1x	5.5%	15.5%	9.2%	1.1	0.0%	13.1%
Freightcar America (RAIL)	Hold	22.21	12.0	265.7	0.0	102.4	163.3	13.0x	NM	29.6x	1.3x	0.5x	NM	NM	NM	NM	-1.7%	-2.9%	-2.7%	2.3	1.1%	-4.7%
L.B. Foster (FSTR)	Buy	41.01	10.2	417.3	0.0	96.0	321.3	14.4x	14.6x	12.8x	1.4x	0.6x	5.2x	6.4x	6.2x	7.9x	6.8%	9.7%	9.7%	1.5	0.3%	6.5%
Ryder System (R)	Buy	69.52	52.6	3,656.3	4,189.4	61.6	7,784.1	17.6x	14.2x	12.9x	1.9x	1.2x	4.9x	5.1x	4.9x	14.7x	2.9%	15.1%	6.0%	1.1	1.8%	NM
Trinity Industries (TRN)	Buy	56.65	79.7	4,513.2	3,021.1	498.6	7,035.7	17.8x	12.2x	8.6x	1.7x	1.7x	6.9x	7.8x	7.8x	10.0x	4.8%	13.9%	8.3%	0.9	1.1%	21.6%
Wabash National (WNC)	Buy	13.11	81.4	1,067.8	390.0	65.9	1,391.9	13.8x	17.0x	13.1x	3.7x	0.9x	8.1x	9.5x	9.5x	12.7x	6.5%	23.9%	11.9%	1.3	0.0%	9.1%
WABCO (WBC)	NC	85.67	64.3	5,506.1	460.7	187.5	5,779.3	19.2x	17.2x	15.1x	6.5x	2.2x	10.4x	14.2x	13.7x	17.8x	16.1%	36.7%	23.4%	1.4	0.0%	NM
Wabtec (WAB)	Hold	71.42	95.4	6,816.8	540.0	281.0	7,075.8	27.5x	23.6x	20.9x	4.8x	2.8x	12.8x	14.8x	14.5x	16.5x	11.7%	22.1%	16.6%	1.4	0.2%	3.9%
Min				265.7	0.0	61.6	163.3	13.0x	12.2x	8.6x	1.3x	0.5x	4.9x	5.1x	4.9x	7.5x	-1.7%	-2.9%	-2.7%	0.9	0.0%	-7.3%
Mean				2,688.2	1,308.0	191.6	3,804.6	17.7x	15.9x	15.1x	2.8x	1.7x	7.9x	9.2x	9.0x	13.4x	6.7%	16.9%	10.5%	1.3	0.9%	6.0%
Mean (Railcar OEMs only)				1,683.9	907.3	201.6	2,389.6	16.0x	13.3x	15.4x	1.9x	1.1x	6.1x	7.0x	7.0x	8.9x	5.1%	12.3%	7.7%	1.3	1.1%	10.0%
Mean (Leasing only)				3,169.2	4,030.2	239.8	6,959.6	18.8x	15.2x	13.6x	1.9x	2.9x	8.1x	8.5x	7.9x	19.7x	2.8%	13.8%	6.4%	1.2	2.1%	NE
Median				1,874.9	436.1	108.7	3,585.6	17.6x	15.4x	13.0x	1.9x	1.3x	6.9x	7.8x	7.8x	12.7x	6.0%	15.3%	9.4%	1.3	0.7%	6.5%
Max				6,816.8	4,189.4	498.6	7,784.1	27.5x	23.6x	20.9x	6.5x	4.6x	12.8x	14.8x	14.5x	24.7x	16.1%	36.7%	23.4%	2.3	2.3%	21.6%
Stifel Transportation Average				8,997.5	1,602.1	429.7	10,262.8	22.0x	20.9x	18.1x	3.5x	2.2x	9.0x	9.8x	8.5x	14.7x	5.3%	15.1%	10.6%	1.4	0.9%	4.0%

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation

(d) 2014E P/E divided by First Call mean or Stifel estimated long-term growth rate

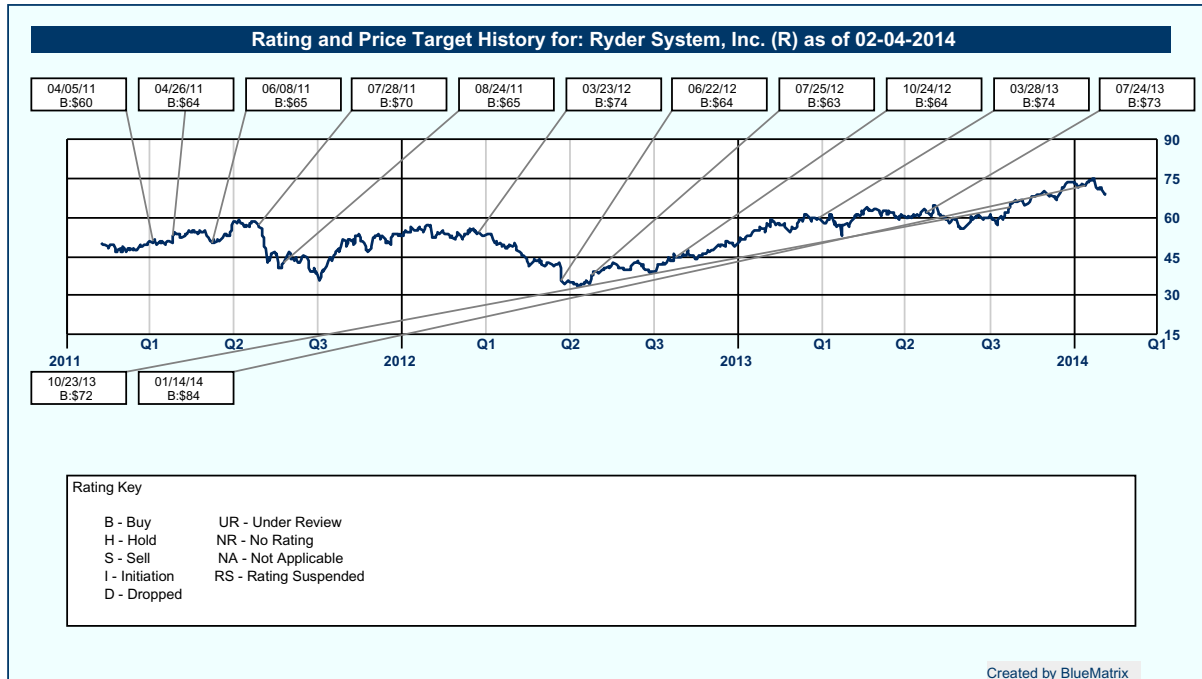
Excludes non-recurring items

Calculations may vary due to rounding

Source: Company data, First Call, and Stifel estimates

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For a price chart with our ratings and target price changes for R go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=R>

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Stifel makes a market in the securities of Ryder System, Inc..

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BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

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