GATX Corporation

2024 First-Quarter Conference Call **April 23, 2024**

Operator:

Good morning. My name is Dennis, and I will be your conference operator today. At this time, I would like to welcome everyone to the GATX Corporation First-Quarter 2024 Earnings Conference Call. (Operator Instructions). I would now like to turn the conference over to Shari Hellerman, Head of Investor Relations for GATX Corporation. Please go ahead.

Shari Hellerman:

Thank you, Dennis. Good morning, and thank you for joining GATX's 2024 First-Quarter Earnings Call. I'm joined today by Bob Lyons, President and Chief Executive Officer, and Tom Ellman, Executive Vice President and Chief Financial Officer.

As a reminder, some of the information you'll hear during our discussion today will consist of forward-looking statements. Actual results or trends could differ materially from those statements or forecasts. For more information, please refer to the risk factors included in our earnings release and those discussed in GATX's Form 10-K for 2023 and elsewhere in our filings with the SEC. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Before I provide a quick recap of our first-quarter results, I'd like to remind everyone that our Annual Shareholders' Meeting is scheduled on Friday, April 26, at 9 A.M. Central Time and will be held in a virtual-only meeting format.

Earlier today, GATX reported 2024 first-quarter net income of $74.3 million or $2.03 per diluted share. This compares to 2023 first-quarter net income of $77.4 million or $2.16 per diluted share. The 2024 first-quarter results included a net positive impact of $0.6 million or $0.02 per diluted share from Tax Adjustments and Other Items. The 2023 first-quarter results included a net negative impact of $1.3 million, or $0.04 per diluted share from Tax Adjustments and Other Items. These items are detailed in the Supplemental Information section of the earnings release.

Our first-quarter results and the operating environment were in line with our expectations coming into the year.

GATX Rail North America's fleet continues to perform very well, with utilization of 99.4% at the end of the first quarter. Our renewal success rate also remained very high at 83.4%. We continue to achieve very strong renewal lease rate increases while also extending term. The renewal rate change of GATX's Lease Price Index was positive 33% for the quarter and the average renewal term was 64 months.

Additionally, we continue to successfully place new railcars from our committed supply agreements with a diverse customer base. We have placed all 4,800 railcars from our 2018 Trinity Supply Agreement, and we've placed all 7,650 railcars from our 2018 Greenbrier Supply Agreement. In addition, we've placed over 3,600 railcars from our 2022 Trinity Supply Agreement. Our earliest available scheduled delivery under this supply agreement is in the first quarter of 2025.

During the quarter, we also selectively sold railcars in North America and generated $33 million in asset remarketing income. We expect the secondary market to remain robust and anticipate remarketing income to be evenly paced across quarters for the balance of 2024.

Rail International had a solid start to the year with stable utilization and a total of over 1,000 new cars delivered between Europe and India during the first quarter. Both GATX Rail Europe and Rail India continue to experience success in pushing up renewal lease rates for most car types.

As we noted in the release, we've renamed our Portfolio Management segment to Engine Leasing to reflect the operations of this business segment going forward, as the segment now entirely comprises aircraft spare engine leasing activity.

In Engine Leasing, RRPF, our joint ventures with Rolls-Royce and our wholly owned engine portfolio are performing well and continuing to

benefit from the strong growth in international passenger air travel.

And with that quick overview, we can open the line up for questions.

QUESTION AND ANSWER

Operator:

(Operator instructions) Your first question is from the line of Matt Elkott with TD Cowen. Please go ahead.

Matt Elkott:

Good morning, thank you. Can you guys talk about the absolute lease rates and how they've trended in the quarter?

Bob Lyons:

Sure, Matt, it's Bob. I'll take that one. Yeah, whether it's versus last year's first quarter or the fourth quarter, it's relatively flat. But again, keep in mind we've had a really substantial increase in lease rates over the course of the last couple of years. So, they have leveled off at a very attractive level, hence the LPI coming in at 33%. And based on the outlook for renewals, we'll continue to see very positive uplift, if rates just stay where they're at today.

Matt Elkott:

Regarding that "if" Bob, what's your opinion? Do you think they will stay at the current levels, given what rail traffic is doing and velocity seems to be improving as well? Or do you think there could be some downward pressure?

Bob Lyons:

Well, I don't see any impetus for downward pressure right now. And likewise, we don't see a catalyst for anything really making rates spike up. So, our expectation -- and it was the expectation we had coming into the year -- is that they'll be at this level, and consistently at this level, through the year.

Tom Ellman:

Matt, one thing -- Matt, I'm sorry. This is Tom. One thing that you'll notice is that when there is some weakness in a particular car type, you're tending to see scrapping activity increase. So that supply and demand stays in balance.

Matt Elkott:

Yeah, that makes sense. And then on the remarketing income it was pretty solid in the quarter, given the expectations coming into the year. Are you guys still expecting what you had been expecting at the end of 4Q for remarketing income? Or have those expectations changed for the full year?

Bob Lyons:

We still expect to be in that $90 to $100 million range, Matt, that we laid out at the beginning of the year. And as you know, remarketing is really difficult to predict quarter to quarter. It's the most difficult thing we have to predict, or to estimate, quarter to quarter, and we live it every day. It's a lot of different transactions, a lot of different assets, sales, market. And trying to pin down the timing of those is difficult to do, and we're always driven to do the most economic thing. So, it's tough to lay it out quarter by quarter, but we fully expect to be where we were -- the range we laid out coming into the year.

Matt Elkott:

Okay. And then just one last question -- if we just annualize the first quarter, you'll be at over $8 a share for the year. But your high end of your guidance has $7.70 -- is the variable here -- is that remarketing income? Where can we -- where should we see the kind of subsiding and earning for the rest of the year? Where is it going to come from?

Bob Lyons:

It would be on the remarketing income side.

Matt Elkott:

Got it.

Bob Lyons:

Because if we annualize the remarketing income from the first quarter, we'd be well above where we had the guidance we gave at the beginning of the year and we expect to be within the range we laid out at the beginning of the year.

Matt Elkott:

Perfect. Thank you very much.

Bob Lyons:

Thank you.

Operator:

Your next question is from the line of Justin Long with Stephens. Please go ahead.

Justin Long:

Thanks, good morning. And I guess to start by dovetailing on that last question -- it's helpful to get the clarity on remarketing income expectations. But, last quarter, you gave a lot of segment-level guidance and some ranges on 2024 expectations. I know the guidance overall didn't change from an EPS perspective, but did anything at the segment level change versus what you were anticipating at the start of the year?

Bob Lyons:

No, not really. We're -- as we look out through the balance of the year and what occurred in the first quarter, I hate to use the word uneventful -- but, as planned, may be a better way to look at it, and that's across every segment.

Justin Long:

Okay, great. And second question is on investment opportunities. I was curious if you could just comment on what you're seeing in the pipeline today and any updated thoughts around the level of investment volume we could see in 2024.

Bob Lyons:

Tom, do you want to go ahead with that one?

Tom Ellman:

So, coming into the year, we expected that we'd see investment levels that were similar to 2023 -- so, $1.6 billion. And if you look at what happened in the first quarter, where we did $375 million, we're kind of right on pace and our expectations for the year remain in that range.

Justin Long:

Okay, easy enough. I'll leave it there. Thanks for the time.

Bob Lyons:

Thanks, Justin.

Operator:

Your next question comes from the line of Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors:

I wanted to come back to remarketing income. Can you talk a little bit qualitatively about the depths and types and just tenor of that market in North America today? And if there's been any shifts since six, nine months ago. You mentioned in the prepared remarks that you thought the cadence would be fairly even -- its typically been more lumpy than that. Is that just a function of the difficulty to predict when the deals close or is there something different about how you're managing your books into the market this year versus what you've done in the past? Thank you.

Bob Lyons:

Bascome, I'll take that one. It's really dependent -- the lumpiness occurs because of the timing of individual sales transactions. We don't put a book out and sell a thousand cars to one buyer. We do many, many sales -- small sales -- to a lot of different buyers. So, getting all of those to line up and kind of predict those in a given

timeframe is difficult to do, and we're certainly not going to force anything into a particular quarter if it doesn't make -- when it might not make economic sense. So, we will -- whether we get something in the second quarter or third quarter, we become indifferent. We want the best economic outcome for the shareholders.

In terms of the market overall, it feels really good. The secondary market remains incredibly healthy, active, robust. We said in 2023, when we came into the year, we thought that it might taper off a little bit because interest rates were on the rise. But that didn't happen and it certainly didn't happen in the first quarter. We don't see it happening based on the level of interest we get when we're putting packages out -- and it's from a pretty broad and deep buyer group. So, we're encouraged by that.

Bascome Majors:

And if I could ask a follow-up. I mean you finally, officially, renamed the third segment Engine Leasing to reflect your focus there. As your partner in the JV side of that business gets further along in some of its transformation, is there an opportunity to perhaps restructure the JV longer-term and bring more of that economics in-house? Or will it just be maybe more incremental growth continues to come at 100% ownership economics to you?

Bob Lyons:

We're going to continue as we laid out at the beginning of the year -- to invest directly. We expect investment-level, directly-owned engines to be in that $250 million range again this year. Again, those are very lumpy and each engine's a $25 million to $30 million undertaking. So, predicting those on a quarterly basis can be tough, but we are working on investment activity at the same level we saw last year, which is very encouraging.

And within the joint venture itself, they did roughly $250 to $300 million of investment volume last year within the joint venture. And we see that going up pretty sharply this year. So, they're returning much more to a growth mode after managing the portfolio through the COVID crisis.

In terms of restructuring the joint venture in the future, that's not something we're contemplating. And certainly, it's been a very beneficial joint venture for 25-plus years now for both parties, and it works well in the current form.

Bascome Majors:

Thank you.

Operator:

Your next question comes from the line of Justin Bergner with Gabelli Funds. Please go ahead.

Justin Bergner:

Good morning, everyone. Good morning, Bob. Sorry, excuse me. First question relates to your comment that for railcar types that are seeing some lease rate softness on a sequential basis, there seems to be this offsetting dynamic whereby more of these cars are being scrapped. Can you elaborate on that?

Tom Ellman:

Yeah, Justin -- wasn't talking about where you might see something in terms of lease rates. What that's referring to is -- Matt's question had to do with velocity. And if velocity were to pick up for a given car type and a lessor tends to need less of them, the market, as a whole, has tended to scrap any excess cars, so that the market remains in balance and lease rates actually stay strong.

Justin Bergner:

Okay, that's helpful. And is that just a function of the scrap rates still being compelling such that it doesn't take a sort of meaningful change in the outlook for that car type to justify scrapping the car?

Tom Ellman:

Yeah, so it's both – a feature of the scrap prices are strong on any kind of historical basis. And people are just hanging onto cars because the challenges of getting incremental cars. So, it's more a case of some of those cars, towards the

end of their life, are being held onto until something comes up and people determine, you know what, we don't need a few.

Justin Bergner:

Okay, got you. And with respect to the joint venture, the -- I guess segment equity income sort of dropped this quarter compared to some recent quarters, I guess, particularly the last quarter. Is that just a function of lower remarketing income in the joint ventures or any other dynamics worth calling out?

Tom Ellman:

So, the mix of income for the first quarter was very similar to what it was for the full-year '23. In both cases, about 55% of the JV income was operating and about 45% was remarketing, but the absolute dollar amount of -- remarketing gains versus the fourth quarter were down a bit, about $3 million or so.

Justin Bergner:

Okay. So just to be clear, the joint venture – while it drove a lot of the upside surprise in 2023 -- is so far in 2024 delivering according to your plan, I guess, the broader engine leasing segment as well?

Tom Ellman:

Just to echo Bob's opening comments, yes kind of across segments, that's what we're seeing, inclusive of Engine Leasing and within Engine Leasing, inclusive of the JV.

Justin Bergner:

All right. Thanks Tom and thanks for taking my questions.

Operator:

Your next question comes from the line of Brendan McCarthy with Sidoti. Please go ahead.

Brendan McCarthy:

Hey. Good morning, everybody. Thanks for taking my questions. I just wanted to start off at Rail India. It looks like the investment volume there is pretty -- looked pretty stable. I think, at the start of or at the end of last year, you mentioned you'd like to see the railcar balance above 10,000, I think, by the end of 2024, but it looks like you're all in good pace to surpass that maybe next quarter. Can you just talk about the the market dynamics in India, what you're seeing? Obviously, utilization remains right at 100%, but -- can you talk about the dynamics and what you expect for this year and next, maybe?

Bob Lyons:

Sure. And the dynamics remain very strong. The Indian Railway continues to invest in its infrastructure. And just with the GDP growth in India and the need for continued infrastructure development, a lot of the products that will support that infrastructure development will move by rail. Whether it's steel, cement -- you thinking about any activity in India construction-related, they're going to need rail service.

So, what really governs our ability right now to add cars to the fleet is the capacity to build. And if we could get access to more railcars, we would put more on lease. But we have to work with a number of different builders. They're doing a great job, but the demand is so high, we don't have unfettered access to what we want. We'll certainly go over the 10,000-wagon mark this year. A very good start to the year and the first quarter with deliveries where they were at on new wagons and we should hit that in the next quarter or two.

Brendan McCarthy:

Got you. And just kind of looking at the guidance that you gave last quarter. It looks like you expect the Rail International segment profit up $10 to $15 million, that's still – obviously, that still remains the same despite the elevated wagon additions?

Bob Lyons:

Yes, that's correct.

Brendan McCarthy:

Okay, and last question from me. I just had a -- wondering if you could provide some insight on the Norfolk Southern complaints. I saw that they had the $600 million settlement. Do you have any updates you can provide us with, with those complaints?

Bob Lyons:

As you can understand, a litigation of that nature -- we really don't get into detail on that. We continue to believe it's -- very strongly in the position we have, that the claims Norfolk Southern has made against GATX are unfounded, and we'll defend ourselves accordingly.

Brendan McCarthy:

Understood, thanks for the insight. That's all for me.

Bob Lyons:

Thank you.

Operator:

At this time, there are no further questions. I will turn the call back over to Shari Hellerman for closing remarks.

Shari Hellerman:

I'd like to thank everyone for their participation on the call this morning. Please contact me with any follow-up questions. Thank you.

Operator:

This concludes the GATX Corporation 2024 First-Quarter Earnings Conference Call. Thank you for joining.