Operator:

Thank you for standing by. My name is Angela, and I will be your conference operator today. At this time, I would like to welcome everyone to the GATX 2024 Second-Quarter Earnings call. (Operator instructions). I would now like to turn the call over to Shari Hellerman, Head of Investor Relations at GATX. Please go ahead.

Shari Hellerman:

Thank you, Angela. Good morning, and thank you for joining GATX's 2024 Second-Quarter Earnings call. I'm joined today by Bob Lyons, President and Chief Executive Officer; Tom Ellman, Executive Vice President and Chief Financial Officer; and Paul Titterton, Executive Vice President and President of Rail North America.

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 our other filings with the SEC. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Earlier today, GATX reported 2024 second-quarter net income of $44.4 million or $1.21 per diluted share. This compares to 2023 second-quarter net income of $63.3 million or $1.74 per diluted share. The 2024 second-quarter results include a net negative impact of $8 million or $0.22 per diluted share from Tax Adjustments and Other Items. The 2023 second-quarter results include a net positive impact of $0.2 million or $0.01 per diluted share from Tax Adjustments and Other Items.

Year-to-date 2024 net income was $118.7 million or $3.25 per diluted share. This compares to $140.7 million or $3.87 per diluted share for the same period in 2023. The 2024 year-to-date results include a net negative impact of $7.4 million or $0.20 per diluted share from Tax Adjustments and Other Items. The 2023 year-to-date results include a net negative impact of $1.1 million or $0.03 per diluted share from Tax Adjustments and Other Items. These items are detailed in the Supplemental Information section of our earnings release.

I will provide a quick overview of our second-quarter results, and then I'll turn it over to Bob for additional commentary on our year-to-date performance. After that, we'll open the call up for questions.

GATX Rail North America continues to experience stable demand for railcars. Our fleet utilization was 99.3% at quarter end, and our renewal success rate was strong, at 84.1%. We continue to achieve strong renewal lease rate increases while successfully extending term. The renewal rate change of GATX's Lease Price Index was positive 29.4% for the quarter and the average renewal term was 61 months.

Additionally, we continue to successfully place new railcars from our Committed Supply Agreement with a diverse customer base. We've placed over 4,300 railcars from our 2022 Trinity Supply Agreement. Our earliest available scheduled delivery under this supply agreement is in the second quarter of 2025.

The secondary market in North America remains robust. We generated approximately $20 million in remarketing income during the quarter, bringing year-to-date remarketing income to approximately $53 million.

Rail International is performing well and Rail Europe continued to experience success in pushing up renewal lease rates for most car types. We continue to grow our lease fleets in Europe and India.

In July, Rail India received the delivery of their 10,000th wagon.

Within Engine Leasing, the Rolls-Royce and Partners Finance affiliates produced strong operating results due to continuing high demand for aircraft spare engines. As we have mentioned in the past, timing of remarketing events at RRPF can be very lumpy from quarter to quarter. Year-to-date, operating income makes up approximately 75% of RRPF earnings, while

remarketing income makes up approximately 25%.

Turning to GATX Engine Leasing, our wholly owned portfolio, we continue to increase our direct investment in aircraft spare engines. We added three engines during the second quarter, bringing the total engine count in our wholly owned portfolio to 32 engines, with a total net book value of over $750 million. The investment pipeline for engines is expected to remain robust for the remainder of this year.

With that quick overview, I will now turn the call over to Bob.

Bob Lyons:

Thank you, Shari, and good morning, everybody. Given that we're now past the halfway point of the year, I thought I'd add some comments to complement Shari's introduction and I'll focus on the overall environment versus the expectations we had coming into the year. And the fact is, I can keep these comments brief because the first half of the year has largely played out as expected. It doesn't always occur this way -- rarely occurs this way, but the first half of 2024 tracked very much in line with what we thought coming into the year, and what we discussed with you when we gave our outlook back in January.

At Rail North America, we stated that the recovery was largely a supply-side driven recovery, and we expected very little in the way of growth in carload traffic. That's what we planned for and that is what has occurred. Demand for existing railcars is very stable and we've been able to realize appropriate rate increases and extend term. The commercial organization continues to do an outstanding job.

As a result, our financial performance at Rail North America is consistent with where we thought we would be at this point of the year. And that's whether you're talking about revenue growth, which has been very strong; net maintenance or interest expense, both of which are in line with where we thought; remarketing income, the same, as well as segment profit. All of these are essentially coming in line with forecast and the overall market environment, from a commercial standpoint, is really positive. That's reflected in our LPI, which was 33% in the first quarter, 29% in the second quarter and again, in line with our full-year outlook of the plus 30% range.

Same for our renewal success rate, which is holding up really strong, highlighting the fact that our customers want to hold onto the -- their existing rolling stock. And even a change in sequential lease rates, which were flat this quarter and have been for several quarters, is what we anticipated. So, we see no major issues or changes on the horizon, which would lead us to adjust full-year Rail North America. And that's a positive situation, given that we had such strong expectations coming into the year for our key performance measures.

At Rail International, we have a similar story, wherein general market demand is really strong. At GATX Rail Europe, I'd only point out one caveat, and that's as it relates to the intermodal sector where we thought there was a reasonable chance for a recovery in this market in the second half of the year, but that appears to be getting pushed out a bit. Fortunately, intermodal is a small part of our overall fleet. So, weakness there should be offset in other areas across GATX Rail Europe.

And as Shari mentioned, in India, we have high expectations coming into the year and those appear to be warranted. We've had excellent growth in fleet count. We crossed the 10,000-wagon mark. The country has completed their nationwide election process. We're seeing strong economic growth and we continue to expand our customer base and the car type offerings.

Within Engine Leasing, whether it's through our joint venture or in our wholly owned portfolio, we see strong demand for our assets. The recovery in global air travel has occurred much faster than anticipated. It's continuing, and that's leading to very high utilization of our spare engines or those within our pool.

And lastly, we continue to find attractive ways to put capital to work at attractive returns. We came into the year expecting full-year volume in the $1.6 billion range. And at the halfway mark, we're just over $800 million, so very much on track. And on a positive note, we're seeing this –

these opportunities essentially across business units.

So overall, while there have been some twists and turns through the first half of the year, which always occur, our commercial and operational teams have navigated these extremely well, both here in North America and internationally. And the year's largely playing out as planned -- and that's a good thing.

So, with that, we'll go to Q&A.

QUESTION AND ANSWER

Operator:

(Operator instructions) Your first question comes from the line of Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors:

Hey, Bob, you opened up your prepared -- sorry your closing remarks with the discussion of supply-side lead recovery in North America. As we look forward, and we don't have a crystal ball, it does seem that both interest rates and steel price inflation have the capability to move in the other way, perhaps more durably over the next year, year and a half, two years. How do you think about managing your business differently, if those upward pressures on asset prices and lease rates start to moderate? And where do you think that we should look across your business as we think about that from our perspective? Thank you.

Bob Lyons:

Sure, Bascome, and thank you for the question. Since we have Paul Titterton here today, who joins us mid-year and at year end, as President of North American rail, why don't I let Paul answer that question and give you his thoughts.

Paul Titterton:

Sure. And I think it's a good question. First of all, I think you're right, that certainly the possibility of easing interest rates and easing steel prices could have some impact on the railcar market. But I would say that a couple of things are important to consider, when we think about the North American railcar market.

Capacity shifts certainly have resulted in what we think of as likely a long-term reduction in new car capacity.

When we think back to, say, the crude boom or the ethanol boom, those were periods when the aggregate production for North American railcars got up into the 80,000-car-a-year range. And of course, right now the market is struggling to, frankly, even hit the 50 range and is probably going to continue to fall short of that.

So, we really think that even if some of the input costs to railcar purchasing and financing moderate, that fundamental capacity is not going to get anywhere near where it used to be and probably frankly, given just labor availability, can't. So, we don't see, in North America anyway, the threat of extreme oversupply, the way we saw in some of the past boom/bust cycles.

Bascome Majors:

Paul, to that, I know this is not something that you can quantify with precision, but when you think about your business, do you have a sense or just sort of internal thought process on how much of the lease pricing power has been driven by new-car cost inflation versus just traditional supply demand tightness, cars and storage, utilization; however, you want to frame it at a more fundamental versus asset price standpoint? Thank you.

Paul Titterton:

Well, the first thing I'll say is the North American railcar leasing market is and has always been a highly competitive market. So, whatever the new car supply dynamics are, there are obviously a large number of operating lessors that compete to supply railcars in the North American market. And that has been the case, and that's going to continue to be the case. I will say, though, I think if you look back at the two historical periods I was talking about -- the ethanol boom and the crude boom, the dynamic that we saw was this fairly exaggerated cyclicality where the market would dramatically overshoot on production in response to a demand stimulus. And then when that

demand stimulus went away and we saw the next economic downturn, you'd have this hangover excess supply of railcars. And so, I think and that would, of course, affect both pricing and utilization. Here, where we're not seeing the overshoot on the supply side, where production levels are at something closer to replacement level, you're not likely to have that overshoot. And so, you're likely to have -- in terms of a pricing and utilization metric, you're likely to have a more stable fleet in this environment. So, I think that's really the difference here versus some of the past cyclical peaks that we've seen.

Tom Ellman:

Hey, Bascome, just to add to that, you pointed to the cost of a new car as being one of the drivers. It's also worth noting that it's the length of time it takes to get that new car. So, when Paul is talking about what we've seen in the past versus today, regardless of what the cost of that new car is, the fact that it's not immediately available versus an existing car, which is, is an important driver.

Bob Lyons:

Yeah, I'll just round out the last point here Bascome, with two things. One, in terms of the demand side of the equation, I'd point you to the renewal success rate. You know, the demand for the installed base of assets remains high. Customers are renewing with great frequency -- we're north of 80%. That's a great indication that customers are -- they have conviction around the assets they have in their fleet today and they're going to hold onto those, for sure. So, that's a key point.

Bascome Majors:

I'll pass it on. Thank you.

Operator:

(Operator instructions) Your next question comes from the line of Justin Bergner with GATX. Please go ahead.

Justin Bergner:

Sorry, it's Justin Bergner with Gabelli Funds. Good morning, Bob, Paul, Tom, Shari.

All:

Good morning.

Justin Bergner:

A couple of questions -- you mentioned, I think, that year to date for the RPPF joint venture, what you've seen is about 75% of the earnings or equity income is related to the operating assets and 25% related to the gain on sale. I think in the past, you've mentioned that historically over the long term that's been closer to 50/50. Do you expect it to kind of end up this year closer to 50/50? And if not, are you now kind of absorbing earnings headwind in the guide that you're reiterating associated with slower asset sales from the JV this year?

Tom Ellman:

Yeah, Justin, this is Tom. It's absolutely true that gain on remarketing is pretty lumpy and we would expect the back half of the year for that piece to increase and to move much closer to the historical averages for the year as a whole.

Justin Bergner:

Great and the historical average's closer to 50/50?

Tom Ellman:

Correct.

Justin Bergner:

Okay, thank you for that. And then with respect to Rail North America, it seems like you're pretty active in terms of adding cars at sort of a pace that goes beyond what's captured by the long-term agreement with Trinity. Can you maybe just provide a little perspective as to the types of attractive opportunities you're seeing on the buy-side in the secondary market?

Paul Titterton:

Sure. This is Paul Titterton speaking. And yeah, one of the nice features of this market has been actually that we've seen a number of attractive investment opportunities outside of our committed supply agreement, and that's both on the new car syndication side as well as the secondary market side and really there's not necessarily a particular theme. Those investments have been diverse in terms of car type and customer. I will say that I think with the dynamics of the current market right now, GATX has simply emerged as a good and attractive buyer of a variety of types of operating lease deals. So, it's been particularly nice because, as you know, we pride ourselves on being disciplined investors. We've been able to generate this additional volume without relaxing our standards at all. We're using the same pricing approach we always use and this market just seems to be a good fit for us as an investor across a wide range of car types.

Justin Bergner:

Okay, great. And I'll throw in one more, which relates to the comment that came up on a prior question with the market dynamics of leasing. You seem to be suggesting that there's a narrowing price gap between the leases on existing, but I guess the lease rates on, you know, existing cars and the economics of buying a new car for lease. Is that something that, you know, you've seen over the last couple of years or is this more of like a one quarter phenomenon? I think Bob mentioned the increasing wait to get a new car, helping demand for leases on existing cars?

Bob Lyons:

And Justin, I'll start and Paul will jump in, but we've said now for many quarters and couple of years, there is a bifurcation in the market where you see demand for the existing rolling stock extremely strong, which is definitely a sign of that conviction that the customers have. They're not going to let go of the railcars that they have in their fleet today. So, we've seen very, very strong market-wide upward lift in lease rates and the opportunity to raise rates, and the reason we're locking those rates in for very long periods of time, as we do when we have that opportunity. So that, you know, that's one key part of it.

The second part is the new car replacements relative to the existing renewals have been a little bit more challenging, but that's not a new dynamic. We've been addressing that and really facing that over the course of the last couple of years. And our commercial team has done a really, really solid job, whether it's tank or freight or getting new cars placed, as well.

Paul, if you want to …

Paul Titterton:

I'll just add to that. I think you know, to your question about this -- the sort of the spread between new and existing --anytime you see a highly utilized fleet, such as we have today, that spread is going to narrow. So, you're absolutely correct that we are seeing a narrower spread between new car pricing and existing pricing now than say, at a time when fleet utilization is weaker. And so that's really just exactly what we'd expect to see in a market like this.

Justin Bergner:

Okay, thanks. But just one follow on, if I may. It seems like even if the utilization were to come down a bit as rail operating metrics improve, it still seems like the, I guess, lower effective capacity in the industry is causing people to maybe re-assess existing rolling stock versus new cars in sort of a different frame than they have historically. Is that fair?

Paul Titterton:

Yeah, I think that is fair. I've been describing this as sort of a self-correcting market, which is to say that scrap prices are supportive of retiring obsolete equipment or underutilized equipment. The new car market isn't overproducing new cars. And so, as a result, you know, small changes on the demand side aren't producing an excess supply of cars -- aren't putting a lot of downward pressure on rates, because we don't have that excess flow of new cars in. And we do have a fairly steady drumbeat of older cars leaving the fleet. So, it's a pretty balanced situation, which I would describe as favorable for GATX.

Bob Lyons:

Good spot to be in, given the size of our fleet. And as a railcar lessor, it's a good spot to be in.

Justin Bergner:

Okay, great. Thanks so much.

Bob Lyons:

Thank you.

Operator:

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

Bascome Majors:

Thanks for taking my follow up. Just maybe close the loop on the new car versus a lease renewal question -- any framing of how much, if any, the price of a new car has fallen from quotes you're getting today versus, say, six- or 12-months ago? And really just trying to get at the core of the steel price impact on a new car replacement today? Thank you.

Paul Titterton:

Sure, I mean, I can't get into specifics, obviously, because our relationships, from a procurement standpoint with the builders, are confidential. But I can say, generally speaking, that prices for new cars remain relatively high as compared to history. So, there's been some degree of moderation. But relative to history, this is still a fairly expensive new railcar market.

Bascome Majors:

Thank you.

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 question. Just wanted to ask a follow-up from a previous question as it relates to the Rolls-Royce JV. Looking at remarketing income there, I know on the rail side, there's some but it's all about just optimizing the fleet. Can you talk about what are the demand drivers with that JV, as it pertains to the remarketing income?

Tom Ellman:

Yeah, essentially, it's the same. It's both for portfolio optimization and when the market might view the engine having greater long-term value than Rolls-Royce Partners Finance finds the value of holding onto that themselves.

Bob Lyons:

Yes, they tend to come, given the cost base, the net book value of each asset. I think Tom has mentioned the gains are lumpy or even lumpier at RRPF than they tend to be at Rail North America, given the size of each asset being sold. But yeah, I would reiterate Tom's comment or support that comment. The philosophy is very much the same. What's the market valuing the asset versus what we view it as a hold and what's the right mix of assets in the portfolio. And those two things will drive that activity.

Brendan McCarthy:

Got it. And that decision is ultimately up to Rolls-Royce?

Tom Ellman:

Yeah, but as ever, as a reminder, the JV is 50/50 owned and decisions like that go to the Board, both of which have a 50% representation.

Brendan McCarthy:

Okay, got it. That's helpful. That's all from me, thank you.

Bob Lyons:

And two of the four Board members for GATX are sitting here which is Tom and myself, along with

two of our colleagues and Rolls has four, as well, so we've all worked together for a very long time. So, their philosophy in terms of portfolio management is very much aligned with ours, when we think about our overall pool of assets, and certainly the way we manage the business here are Rail North America.

Operator:

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

Justin Bergner:

Thanks for the follow up. I just wanted to clarify -- any slowdown in the secondary market or does it remain robust? I know it's looks like it remains robust from the stuff you're buying and selling, but just from an overall industry perspective?

Paul Titterton:

Yes, this is Paul speaking. And yes, that's correct. The secondary market, from where we sit, continues to be strong. We're continuing to see good breadth and depth of buyers when we put packages out.

Justin Bergner:

Gotcha. And sequential rate lease rates -- I know you kind of mentioned during your prepared remarks that they were flat. Is that the case for both tank and freight? Are there any variations to note out -- to note?

Bob Lyons:

I think, freight was a little bit stronger on a relative basis this quarter, sequentially. But not by a significant amount. So, net at, still at that flat level. And by the way, those are sequential rates that have remained very high -- quite high, very attractive levels for us in terms of renewals. So yeah, while the rates generally -- and we've said this before, they have certainly started to flatten out over the course of the last few quarters, they're doing so at a very attractive level.

Justin Bergner:

Great. Thanks for the follow-up.

Operator:

There are no further questions. I will now turn the call back over to Shari Hellerman. Please go ahead.

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:

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.