Operator:

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

Shari Hellerman:

Thank you, Genine. Good morning and thank you for joining GATX's Fourth-Quarter and 2024 Year-End Earnings Conference 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.

I'll provide a quick overview of our 2024 fourth-quarter and full-year results. And then I'll turn it over to Bob for additional commentary on 2024, as well as our outlook for 2025. After that, we'll open the call up for questions.

Earlier today, GATX reported 2024 fourth-quarter net income of $76.5 million or $2.10 per diluted share. This compares to 2023 fourth-quarter net income of $66 million or $1.81 per diluted share. The 2024 and 2023 fourth-quarter results include net positive impacts of $0.17 per diluted share and $0.07 per diluted share, respectively, from Tax Adjustments and Other Items.

For the full year 2024, GATX reported net income of $284.2 million or $7.78 per diluted share. This compares to net income of $259.2 million or $7.12 per diluted share in 2023. The 2024 full-year results include a net negative impact of $0.11 per diluted share from Tax Adjustments and Other Items. The 2023 full-year results include a net positive impact of $0.05 per diluted share from Tax Adjustments and Other Items. These items are detailed in the Supplemental Information pages of our earnings release.

For the second year in a row, full-year investment volume was over $1.6 billion, as we continue to find attractive opportunities to invest in our businesses globally. It should also be noted that RRPF, our engine leasing joint venture, invested over $900 million, as we continue to grow the asset base and platform.

Lastly, as we noted in our earnings release, we expect 2025 earnings to be in the range of $8.30 to $8.70 per diluted share, which will mark another exceptional year of performance for GATX.

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

Bob Lyons:

Thank you, Shari, and thank you all for joining the call today. I'll provide some brief comments on 2024 and then we'll look ahead to the coming year.

I'd like to open my comments, first, by thanking all the employees of GATX, those here in Chicago and around the world, for their outstanding effort and contributions this past year. We're fortunate to have an experienced team across the board. And while each year, they do face new challenges, they find opportunities to put capital to work at very attractive returns.

One of the key performance measures we look at is our safety record. I usually mention this at the year-end call, but I should probably do so more often given its importance to us. Our financial results are of no matter unless our employees are safe -- and that's all employees, but very important for those who work on the shop floor in an industrial environment.

By all safety measures, 2024 was an outstanding year and we'll continue to strive for better. We

had record production in our maintenance facilities this past year and we coupled that with record level safety achievements at our shops in North America and Europe. So, thank you to all the employees who made that happen.

Regarding 2024 results, we came into the year expecting EPS in the $7.30 to $7.70 range. We exceeded the high end of that range with the results announced today. Importantly, as Shari mentioned, we identified and closed on investment opportunities that will continue to strengthen our global platform and position us really well for the years ahead.

Rail North America's results were the main driver to our better-than-expected EPS results in 2024. We came into the year expecting segment profit at Rail North America to be up between $10 million and $20 million and we more than doubled the high end of that range.

Part of that was on the revenue line, as we had more cars on lease than planned throughout the year. And we did this while essentially holding net maintenance right in line with the expectations we had coming into the year.

But for those who followed us throughout the year, the largest driver to the outperformance of Rail North America was remarketing income. Based on the portfolio management plan we had entering the year, we expected remarketing income to come in somewhere between $90 million and $100 million. As it turned out, demand for GATX assets and the value we derive from those sales exceeded our expectations, and we had $120 million in remarketing income.

I'm encouraged by the fact that despite higher interest rates, secondary market participants continue to value GATX offerings very highly. I think this is a testament to the diversity of the asset types that we sell; the quality of the customers and the underlying cash flows; the strength of the lease rates; and the terms and conditions embedded in our leases.

Not all sales portfolios are equal.

Our commercial team does an outstanding job of writing business every year that gives us the option to hold these railcars in our portfolio long term; or if our portfolio optimization strategy dictates, to sell. And I think the demand for our assets in recent years, despite that rising rate environment, speaks volumes about our portfolio and supports the confidence I have in our ability to continue our track record of success in the secondary market.

There are a number of other commercial achievements that I'd like to mention that set GATX up very well for the years ahead, and we'll stay focused at Rail North America for a moment. Our renewal success remained outstanding in the mid-80% levels, indicating that existing customers are keen to retain GATX assets they currently have on lease.

Lease rates also remained at attractive levels, and the LPI came in at 26.7% in the fourth quarter. So therefore, we're renewing cars at higher rates with quality customers for longer term, and that's allowing us to embed very high-quality cash flow into the portfolio, which will pay benefits for years to come.

In addition to Rail North America's outstanding performance, I was also very pleased with the achievements of Rail International and Engine Leasing during the year. Both GATX Rail Europe and GATX India achieved fleet milestones this past year as we surpassed 30,000 wagons and 10,000 wagons, respectively.

While hitting a wagon count milestone is a positive, that's only a cause for celebration if you do it the right way, and that's by adding assets that earn an attractive, risk-adjusted return. We're doing so in both markets. Our international teams will continue to diversify their fleets and customer bases, while adding assets in a disciplined manner.

Before moving on to 2025, I want to comment on overall investment volume. Looking back a couple of years, in 2023, we exceeded $1.6 billion of investment volume, and we came into this past year indicating we would be around the same level. And, indeed, that's where 2024 played out. We invested over $1.6 billion with an additional $900 million invested at Rolls-Royce & Partners, our engine leasing joint venture.

It's important to note that we do not develop an investment budget at the corporate level and then push it down to the business units. We do the opposite. We go bottoms-up with the business units, determining what works for them and what opportunities are present in a given year in their respective markets. The corporate team then serves as that extra check to ensure we're earning the right return on those investments.

Looking at 2025, at Rail North America, we expect a very similar operating environment as we experienced this past year. There are two things I want to note.

First, as you know -- many of you know, overall carload traffic in North America has been relatively flat, and it's been that way for a number of years. We expect that to be the case again in 2025. I mentioned this because it's important for everyone to know that we are planning on flat car load growth. If we get any left above that, that's welcome. That would be great. But it's important to know our results are not predicated on this.

And second, we've been experiencing and talking about this being a supply-led recovery, and that continues to hold true. The railcar builders in North America are being very disciplined about matching their output to meet market demand, and that's a very good thing.

Furthermore, given the age of the North American fleet and stable demand from scrappers, temporary imbalances, in particular car types, are being quickly addressed via scrapping, and that's bringing supply and demand back into balance. So those general themes we expect to continue into 2025 and beyond.

Addressing some of the key commercial terms that we talk about frequently at Rail North America, we expect similar performance in the year ahead as we saw last year. Utilization in the range of 99%-plus. We expect the LPI to be in the mid- to high-20% range, and we expect renewal success above 80%. With these data points in mind, in factoring in addition to the fleet, we expect lease revenue at Rail North America to increase approximately $75 million in 2025.

Offsetting some of this revenue lift, our tank car compliance activity increases modestly in the year ahead. Therefore, we expect net maintenance to increase approximately $10 million in 2025.

Also, we anticipate the higher interest rate environment that we've been operating in will continue this year, and our interest expense will rise accordingly. Also, with a larger asset base comes increased depreciation, and these two factors combined, the ownership costs of interest and depreciation, we expect to increase approximately $40 million.

The last key variable around Rail North America segment profit, and as those of us -- those of you who followed us for a long time now, it's the most variable of our items, is remarketing income. However, given the demand and the depth and breadth of buyers we experienced in recent years, and their stated appetite for GATX assets, we expect another robust year in the secondary market. As a result, we see remarketing income coming in, in the range of $100 million to $110 million in 2025, another very healthy year.

As for Rail North America's investment volume, 2024 was a record year with over $1 billion in capital put to work; that was truly an exceptional year. In addition to our programmatic investments through our supply agreements, we identified new car spot opportunities and secondary market opportunities at an unusually high pace.

Visibility into these same opportunities in 2025 is less clear right now, so we're currently expecting investments in the range of $800 million at Rail North America, which will mark another very strong year. Taking all these factors into consideration, we see Rail North America segment profit up slightly in 2025, with the high end of that range being plus $20 million.

At Rail International, talk about Europe first. The economic environment remains a challenge, particularly in the region's largest economy, Germany. This impacts our customers directly, as it did last year. So, growth can be a challenge. However, the GATX Rail Europe team has done an excellent job investing in building the

business, and we'll see profit growth in this market.

The same in India. Although there, we have the benefit of economic tailwinds with most economists forecasting GDP in India at 6% or higher for the year ahead. Taken together, we expect Rail International segment profit to increase by $5 million to $15 million in 2025.

At GATX Engine Leasing, the market environment remains very favorable. Not only is global air travel continuing to rise, the long-term fundamental trends in this market are positive. Consider that despite periodic shocks to air travel, such as 9/11; the global financial crisis; the pandemic and various regional conflicts, air travel and the demand for aircraft and engines have shown tremendous resilience.

Rolls-Royce, our partner, at RRPF, is posting very strong operating and financial results and their business has strengthened materially. As we mentioned, in 2024, RRPF invested $900 million for its own account, bringing its total asset base to over $4.7 billion. Additionally, GATX grew its direct Engine Leasing portfolio in 2024 to over $900 million. Given the outlook for our engine investments, we expect the Engine Leasing segment profit to increase by $20 million to $30 million in 2025.

Regarding SG&A, we are working very hard to hold the line on costs despite inflationary pressures. In 2025, our goal is to hold that increase to a modest level over 2024, something in the $5 million range. But I want to be clear, that's going to be difficult to do. But we are hyper focused on it, and we're all paying attention to cost control, as we want to run our business as efficiently as we can.

For total investment across GATX, I noted that Rail North America will be in the $800 million range, and flowing this through to GATX Consolidated, we expect 2025 full-year investment volume to be in the range of $1.4 billion; that would mark another outstanding year.

Putting all these factors together, we expect EPS in the range of $8.30 to $8.70 per diluted share, which would mark another record year of EPS at GATX.

In closing, I'd like to thank our customers around the world. We provide assets that are critical to your operations, and we take that responsibility, and the trust you place in us, very seriously. We'll continue working very hard on your behalf.

And lastly, several of our largest shareholders have been with GATX for 10-plus years, and in some cases, multiple decades. I want to thank them and all of our shareholders for your support. We will remain focused on investing in a disciplined manner, growing our global franchise and generating attractive, risk-adjusted returns for you.

So, with that, let's go to questions.

Operator:

(Operator Instructions) Our first question comes from the line of Andrzej Tomczyk with Goldman Sachs. Please go ahead.

Andrzej Tomczyk:

Hey, everybody. Thanks for taking my question. Your lease renewal success rate in North America jumped up nicely this quarter, up to 89% from 82% renewals in the third quarter, after broadly trending down to flat since the end of 2023. Can you talk about what's driving the higher customer renewals? And if there's anything to read into that going into 2025?

Paul Titterton:

Sure. Thanks for the question. This is Paul Titterton speaking. And yeah, really, what I would say is, I'll kind of echo the themes that Bob was hitting on in his remarks, which is to say that we really see a market that is nicely balanced between supply and demand, where the builders are not adding more assets into the market than demand would otherwise indicate. And what that basically means that as long as we price to the market, we can keep our assets in place.

And as Bob mentioned, in general, with the level of service that we provide, we find that our customers would, all else being equal, prefer to

retain our assets. And so, this is just a good market in which to be able to capitalize on that and generate those high renewal success rates.

Andrzej Tomczyk:

Got it, thanks. And is the outlook for railcar leasing better or changed at all with the new U.S. administration? Just trying to understand the puts and takes you and the customers have been thinking through relative to a potentially less regulated business environment, albeit with the potential for tariffs. How are you guys looking to game planning that?

Paul Titterton:

I'll start answering for North America. This is Paul again speaking and, just saying, it's really too early to know what the effects are going to be. Certainly, we're not hearing anything, either particularly negative or positive from our customer base.

For our customer base right now, I would say its business as usual. I will commend a couple of Administration decisions -- Dave Fink, heading the FRA and then Patrick Fuchs heading the STB, those are both people that GATX knows very well and respect. So certainly, those early decisions from the Administration are positive. But broadly speaking, I would say its early days.

Bob Lyons:

Yeah, and I'll just add, too -- the Rail team here in North America has done a very good job of looking at a lot of different potential tariff scenarios and looking at all of the ways in which we source assets; whole railcars down all the way down to the component level. And we have certainly rank ordered areas of risk and alternatives we can pursue, depending on how tariffs do play out. So, I think we're well prepared.

Andrzej Tomczyk:

Got it, thanks. And maybe just switching gears, talking about the secondary market activity. Nice to see that's still robust. Just in the fourth quarter relative to the third quarter, or earlier in 2024, can you talk about if there are any notable changes in the types of value of the cars being sold or acquired? And then, how can we expect that mix to develop into 2025? What could put the gains relative to your targets, either above or below? What could we be looking for there? Thanks.

Bob Lyons:

Sure. And I'd say there was really nothing unusual in the fourth quarter. We do very programmatic sales. In a given year, we're in the market frequently. And the portfolio that we put together in each of those sales is done with a lot of work analysis here internally on what are the right assets to be selling.

These are high-quality assets and we'll look at things like customer exposure to a particular car type. Those are some of the things we'll think about when we identify what's potentially going to be in a sales package. With a fleet as diverse as ours, that gives us a lot of alternatives to populate those packages.

So, we're not loading them up with any one particular car type. It's really a more holistic portfolio view. So, I don't see that changing at all in 2025. The packages we put out for sale will have a lot of high-quality customers, high-quality assets, great cash flows and really diverse pools of assets for sellers to consider.

Andrzej Tomczyk:

Got it. Thanks Bob and team; I'll hop back in the queue.

Operator:

Thank you. Our next question comes from the line of Bascome Majors from Susquehanna. Please go ahead.

Bascome Majors:

Good morning. Can you talk a little bit about the sequential development and lease rates? And any trends that seem to be emerging in particular car types or the overall market?

Paul Titterton:

Yeah, sure, Bascome. This is Paul speaking again. And broadly speaking, what I would say is that the themes we've talked about in past quarters continue. Absolute rates for most car types in our fleet remain very strong. And I would say that, in general, the market conditions, in terms of pricing for the various different types of assets in the North American fleet, are pretty similar to what we saw last quarter.

So, on a sort of sequential basis, quarter to quarter, the rates for a lot of car types are relatively flat, but flat at strong and attractive levels for us. So, really nothing new to report versus last quarter, but continues to be a favorable environment from a pricing standpoint, for the most part.

Bob Lyons:

And the LPI, Bascome, as I mentioned, we expect to be in the mid- to high-20% range in 2025, which is -- that's a good thing. It's a very, very strong level. And as Paul said, rates are holding in at very good levels. And we're going to renew somewhere in the range of 20,000 railcars in the year ahead. So, we'll have a lot of at-bats and opportunities to capitalize on that rate environment.

Bascome Majors:

And to that 20,000 cars in the year ahead, can you remind us, after this year, how much of the fleet will be left to renew that hasn't been touched in the stronger environment -- call it, 2021 or 2022?

Bob Lyons:

Go ahead, Tom.

Tom Ellman:

Bascome, this is Tom. So, it's not a totally precise measurement because we're constantly repricing. But overall, we're at about the halfway point.

Bascome Majors:

As of today? Or after the 20,000 renewals -- just to clarify there?

Tom Ellman:

Yeah, that's as of today.

Bascome Majors:

And just one more for me. In the Engine Leasing business, how do you feel about the balance of JV investment versus direct investment going forward? And any other more detail on the relationship with Rolls, as their financial outlook has improved? Thank you.

Bob Lyons:

Well, I would say in terms of our relationship with Rolls, we're in year 27 of the joint venture. And that relationship remains very strong. Rolls has been a great partner all those years -- very communicative; never a surprise; very open about what their strategies and plans are, and those are fully shared with us.

And in terms of the direct investment balance -- this year, we did $260 million, roughly; and 10 engines, and the joint venture did $900 million. So, the bulk of the investment will continue to come through the joint venture and, selectively, we'll add assets on a direct basis.

Bascome Majors:

Thank you.

Operator:

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

Justin Bergner:

Good morning, Bob; Good morning, Paul; Good morning, Tom, Good morning, Shari.

All:

Good morning.

Justin Bergner:

First question would be just on capital allocation -- so you said about $800 million of investment volume in Rail North America, which is, I guess, about $360 million lower. But your overall kind of rail investment volume would be about $270 million lower at the $1.4 billion level. So where do you expect to ratchet up the investment outside of Rail North America?

Tom Ellman:

Yeah. So, as you mentioned, Justin, Bob already commented on Rail North America. The other segments are pretty similar to what we're seeing this year. We expect something similar in Engine Leasing; expect something similar at Trifleet. The offset is, we expect Rail International to be up a bit, maybe in the $50 million to $100 million range more.

And, as you'll recall, that business had experienced some supplier challenges getting cars produced. And we do not expect to face the same degree of challenges going forward, which is why that number has gone up.

Justin Bergner:

Got you, alright. That's great. And then to the extent you're spending $270 million less or laying out $270 million less on investment volume, does that just mean that your net debt sort of creeps up a little bit more slowly? Or are you thinking any increased capital return?

Tom Ellman:

Yeah. So overall, what I would tell you is we expect our leverage to remain relatively consistent over the year.

Justin Bergner:

Okay, and leverage defined on what metric?

Tom Ellman:

Debt to equity.

Justin Bergner:

Okay, got you. Last question would be, I guess, with respect to the maintenance expense being higher on tank car qualifications. When does that bolus of spend finish? And how much would you come down from there on a normalized maintenance expense basis, once it finishes?

Paul Titterton:

So, this is Paul speaking. And really '25 is our last high-compliance-event year for a little while. So, we would expect it to begin to come down in 2026. I don't necessarily want to get into a specific range, but I would just say, there is a reasonable opportunity for improvement there in that net maintenance expense, as we see the compliance calendar moderate in 2026.

Justin Bergner:

Gotcha. Alright, thank you.

Bob Lyons:

Thank you.

Operator:

Our last question comes from the line of Brendan McCarthy with Sidoti. Please go ahead.

Brendan McCarthy:

Just wanted to start off on remarketing income -- the favorable outlook there for 2025. I think at the start of last year, there was a thought that perhaps higher interest rates might lead to a maybe softer demand environment as investors look for yield elsewhere. Just want to get your thoughts on what you think the interest environment might look like for 2025 and how that will play into secondary market demand?

Bob Lyons:

Well, we are anticipating that the interest rate environment we're in right now will continue in 2025. So, at higher levels than what we experienced, really, over the course of the prior 10 years, as they ramped up in '23 and '24. We did anticipate that, that might slow some

secondary market activity – really, towards the back half of '23 and throughout 2024, but we just didn't see it. And I think that is a reflection of the fact that railcars are great stores of value. They have high-quality leases and cash flows attached to them.

And even in a higher interest rate environment, we've continued to see the breadth and depth of buyers holding very well. Interest levels are high, multiple bidders on all different components of a portfolio, and a fairly long list of potential buyers to go out to. So that's why we're comfortable in that $100 million to $110 million range. $100 million to $110 million range for this year is really based on the feedback we're getting, real time, from the market.

Paul Titterton:

I'll just add, too. This is another benefit of the fact that we're seeing more disciplined new car production because the universe of investors that want to invest in railcars really have to focus more on the secondary market. So as a seller, that benefits us as well.

Brendan McCarthy:

Great, that's helpful. That's helpful. And then I think on the Rail North America side, you mentioned for 2025, segment profit higher there based off more cars on lease. I guess, as far as additions to the Rail North American fleet, do you kind of look at that as being from some of the supply agreements in place? Or do you think that you might be going out to the secondary market more frequently in 2025?

Bob Lyons:

Well, we'll definitely continue under our supply agreements that we have in place. So, we'll be taking delivery of 3,000 cars under that program alone in 2025. The secondary market activity that we undertook in 2024 was, as I mentioned in my opening comments -- kind of alluded to, was particularly robust at levels we had not experienced before. So, we're not assuming we'll duplicate that again in 2025.

But we absolutely will be active as a buyer in the secondary market again and in the hundreds of millions range we anticipate in 2025. So definitely, we'll be in the market and look at assets that fit well with our portfolio.

Tom Ellman:

Yeah. And just to comment on your statement about the driver of the range that Bob provided. So, Bob noted that the gains on asset sales are expected to be a little bit lower than this year's $120 million. That offset is largely coming from that repricing that we talked about from the fleet. So, the fact that those lease rates are going up, we're getting the mid- to upper-20% more on each of those leases is really a key driver to the increased financial performance.

Brendan McCarthy:

Great, that's very helpful. Thank you, that's all from me.

Bob Lyons:

Thank you.

Operator:

Thank you, that concludes our Q&A session. I'll turn the call back to Shari Hellerman for final closing comments.

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:

That concludes our conference call for today. You may now disconnect.