2026 Second-Quarter Earnings Conference Call July 30, 2026

Operator:

Hello, everyone. Thank you for joining us and welcome to the GATX 2026 Second-Quarter Earnings Call. After today's prepared remarks, we will host a question-and-answer session. (Operator Instructions) I will now hand the conference call over to Shari Hellerman, Head of Investor Relations. Shari, please go ahead.

Shari Hellerman:

Thank you, Jillian. Good morning and thank you for joining GATX Corporation's 2026 Second-Quarter Earnings Conference Call. I'm joined today by Robert 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 2025 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 2026 second-quarter diluted earnings per share of $2.84. This compares to 2025 second-quarter diluted earnings per share of $2.06. Year-to-date 2026, GATX delivered diluted earnings per share of $5.19, compared to $4.21 for the same period in 2025.

I'll briefly touch on each of our business segments, and then we'll open the line for questions.

In Rail North America, market conditions remain constructive. Fleet utilization remained high at 98%, and our renewal success rate was strong at 82.6%. The renewal rate change of GATX's Lease Price Index was 16.8%, with an average renewal term of 54 months. Leasing fundamentals, driven by favorable supply-demand dynamics, continue to support attractive renewal economics across most car types. We also continue to realize benefits from the Wells Fargo Rail acquisition as integration efforts progressed, and the combined fleet continued to perform well.

Additionally, we continue to successfully place new railcars from our committed supply agreement with a diverse customer base. We've placed around 9,500 railcars from our 2022 Trinity Supply Agreement. Our earliest available scheduled delivery under this supply agreement is in the first quarter of 2027.

We capitalized on strong demand for railcars in the secondary market during the quarter, resulting in meaningful asset remarketing activity. Our gains on asset dispositions was $67.7 million in the quarter and totaled $117.5 million year to date.

Outside North America, GATX Rail Europe delivered a solid performance, achieving 95.3% fleet utilization at quarter end despite challenging economic conditions. At GATX Rail India, demand for railcars remained robust, and the fleet was fully utilized. Rail International's investment volume was approximately $46 million during the quarter, reflecting continued fleet growth as we took delivery of new cars in Europe and India to meet customer needs.

Turning to Engine Leasing, the segment delivered excellent results in the second quarter, supported by favorable market fundamentals and continued strength in global air travel trends, which drove strong demand for aircraft spare engines. We also identified attractive investment opportunities through our 50/50 joint venture with Rolls-Royce.

Finally, as we noted in our earnings release, we are raising our 2026 earnings guidance to a range of $9.90 to $10.30, reflecting our strong year-to-date performance, healthy leasing fundamentals in the North American Rail and Engine Leasing markets, the benefits from the Wells Fargo Rail acquisition, and the positive outlook for our businesses.

With that overview, Jillian, let's open the line for questions.

QUESTION AND ANSWER

Operator:

(Operator Instructions) Our first question comes from the line of Ben Mohr with Citigroup. Ben, your line is open, please go ahead.

Ben Mohr:

Hi, good morning. Hope you're all doing well. Thanks for taking my questions. Congrats on the beat and raise. The first one I've got is, along with your EPS guide raise, do you plan to give corresponding full-year targets updating from what you gave at the beginning of the year for revenue, remarketing, segment profit and SG&A?

Bob Lyons:

Ben, it's Bob Lyons. We don't plan to go through line by line, like we did at the beginning of the year. What I can tell you is at mid-year, we're essentially very close or slightly above the guidance that we provided almost across the board on line by line -- slightly ahead on remarketing income, slightly ahead on segment profit at North American Rail and at Engine Leasing -- those are really driving the guidance change. But, if I look -- whether it's revenue, SG&A, some of the key line items, we're still right where we thought we'd be. The $200 million of remarketing income split $130 between GATX and $70 at the joint venture still is in line with our expectations.

Ben Mohr:

Great, really appreciate that. Regarding your LPI -- the 16.8%, looks like it's driven by some sand mix in the quarter. Maybe kind of a two-parter -- can you share what LPI would've been without this extra sand mix? Maybe a rough estimate. The other is, do you still see high teens, low 20s for the full year?

Paul Titterton:

Ben, this is Paul speaking. I'm going to comment just qualitatively on that. As you know, we don't do car type specific breakouts in terms of the components of LPI, just as a matter of policy. Qualitatively, what I'll say is this --when we took on the Wells Fargo portfolio, we knew what the portfolio was. We knew we were getting sand exposure. Really, everything going on in sand, first of all, is consistent with our expectations.

Beyond that, we did have an outsized remarketing quarter for sand, which explains the impact for that. We will have more sand exposure for the remainder of the year, but again, overall, what I'll say is it's consistent with our expectations and consistent -- we valued those sand cars appropriately. While obviously the rates are low, they're not concerning from that standpoint.

Bob Lyons:

Yeah. Ben, it's Bob. I'd add, too, that there's a bit of an anomaly there because the actual level of renewals -- just the pure level of renewals, was higher than we anticipated. We actually expected to get some of those cars back. When you get them back, they come out of the LPI, entirely. We actually renewed more than anticipated, which is a good thing economically for the shareholder, good thing for P&L long term, but a negative on LPI. A bit of an unusual element to the number this quarter.

Ben Mohr:

Great, thank you for that. We noticed Engine Leasing Other Income, that $13.7 million stepped up. Can you share what's behind this? How we should model this? What the trend should be for this line going forward?

Tom Ellman:

Ben, this is Tom. From time to time, we collect maintenance reserves from customers to ensure that funds are available for required maintenance when those events become necessary. If it ever becomes evident that these funds are no longer required for maintenance, they're taken into Income. Typically, this happens as part of an end of lease activity. Given the nature of how maintenance reserves releases are recognized, they tend to be lumpy. Q2 happened to be a particularly significant quarter for this type of activity, so we wouldn't expect that level to necessarily persist quarter to quarter. Over longer periods of time, it is fairly predictable, and this kind of activity regularly happens within the JV portfolio, and we expect it to regularly happen within the wholly owned portfolio as well, but to be a bit lumpy in nature.

Ben Mohr:

Great, thanks for that, Tom. Last one from me. Rail North American maintenance expense looks like it stepped up to the 130 handle, versus before. Actually, not that much, but about a couple million there, or about $10, $11 million. Can you share a view on how the qualification tests are coming along? What drove the step up? Should we still view it as a 120-ish run rate going forward, or is this the new run rate?

Tom Ellman:

Ben, I'll start with some of the numbers, and then I'll let Paul add some color commentary on what he's seeing on the ground. As far as the maintenance expense number, we're very much in line with what we expected coming into the year. Coming into the year, we thought it would be in the $500 million range, and year to date, we're at around $250 -- exactly on target. We expect that to be a bit lumpy quarter to quarter. I would look more at the total year type of numbers than I would at what happens in a given quarter.

Paul Titterton:

Yeah, this is Paul speaking. I'll just add, from a maintenance demand standpoint and a compliance demand standpoint, the year is really unfolding more or less as we expected. No surprises there. It's the volume of repair is consistent with what we thought coming in.

Ben Mohr:

Great, really appreciate that. Thanks again for the time and insights.

Operator:

Our next question comes from the line of Andrzej Tomczyk with Goldman Sachs. Andrzej, your line is open, please go ahead.

Andrzej Tomczyk:

Great. Thanks, operator. Morning, everyone. Thanks for taking my questions. I was just curious to start off on the gains on sale in the second quarter. I know it's hopped up. I'm curious though, because I remember, I think last quarter, the JV only saw about $2 million of gains, relative to the $70 million full-year target for the JV, I think it was. Any update on sort of what the JV experience in terms of gains relative to your core business, in the second quarter, and then on that full-year target? How you would expect to trend, for the JV versus the separate of the JV? Thanks.

Tom Ellman:

Yeah, Andrzej. You might recall from last quarter, we noted that we expected the first quarter of gains from the JV portfolio to be pretty limited, as we focused on integration. If you look at what happened in the second quarter, it's roughly a third of what we expect for the entire year, so very much on pace.

Our $70 million number, that expectation has not been changed. In contrast, if you look at what's going on in the legacy portfolio, we're definitely running ahead of where we originally anticipated we would, and it's likely that for the full year, we'll be a bit better than that $130 million, and that was one of the things that drove our decision to take up guidance.

Bob Lyons:

I'll just add a couple of numbers around that. If you look at the year-to-date, six-month numbers for net gain on disposition, we're at $118. You can call it $25 of that, roughly, is the joint venture. About $95 of that, roughly $94 of that, is in the legacy versus the $130 we said coming into the year. Consistent with what Tom said, we're well ahead of where we thought we would be on the legacy portfolio through the first six months, and we'll probably exceed that a little, the $130 a little bit, and then with the joint venture -- right in line with what we thought in terms of timing and amount.

Andrzej Tomczyk:

Understood. On the Wells Fargo sort of benefits, the $0.30 benefit expectation is what you guys had previously talked about. Is that sort of still the expectation or the run rate you guys are on currently? Then I just had a question on sort of as you integrate the Wells Fargo fleet into your own, the revenue per active carload, I think will be going down from a mix perspective. How do we think about that going forward and when that sort of normalizes?

Tom Ellman:

Let me take the first part of that question. As far as what we expected coming into the year, we thought it would be between about $0.20 and $0.30 of EPS. At this point, we definitely believe we will exceed that and will probably be at least double that number. There's kind of three aspects to things driving that contribution: management fees that we earn; the day-to-day performance of the portfolio; and then the remarketing gains. We already talked about the remarketing gains and said that those are likely to come in about where we thought, but, we think it's likely that the other two aspects of that will be better than anticipated.

You may recall that Bob mentioned even before -- we one day start doing maintenance on our own facilities, we would see opportunities to enjoy benefits as we apply our rigor at looking at third-party maintenance performance. We're seeing that. We're seeing ourselves do a little bit better than anticipated on the day-to-day running of the portfolio.

Also, on the potential upside, part of the way management fees are structured for the portfolio that is wholly owned by Brookfield is, we have the potential to earn fees for asset sales. Just like the strong secondary market in our legacy portfolio and the JV portfolio, it's a strong market in that side as well. There's the potential to have some upside there. Again, when you translate all of that, we'll probably be at least double what we thought we'd be coming into the year.

Bob Lyons:

On your comment or question about revenue or revenue per car, the only comment I'll make there is a cautionary one, which is it's really difficult to try to glean any consistent trend out of that data point, given that we're selling assets and adding assets. The portfolio's very dynamic, not static. It's changing every single quarter. It also comes back to when assets are sold; if they're sold right at the end of the quarter, if they're sold at the beginning of the quarter -- it can have a pretty meaningful impact if you're looking just at revenue per car.

Understand the reason for the attention on that number, but I'll just add that note. It can be a little bit difficult to really dig into that one and draw any meaningful conclusion from it on a trend basis.

Paul Titterton:

I'll just add mix, as well, affects that. The revenue on a railcar with an OEC of $100,000 is very different than the revenue on a railcar with an OEC of $300,000. Our fleet has a diverse mix, so depending on what's coming in or out of the fleet, you can have a very different revenue per car profile.

Tom Ellman:

Andrzej, finally on that point, we've mentioned before that when we do asset sales out of whatever portfolio, we're primarily selling for portfolio optimization purposes. In other words, the quality of the portfolio that we have remaining is stronger after an asset sale than before. If you simply look at quarter-over-quarter revenue, you're missing the fact that when you sell assets, some of the costs go away as well.

One obvious example is ownership costs like depreciation. When you look at the total impact on the portfolio, that's really the way to think about this, rather than the revenue line in isolation.

Andrzej Tomczyk:

Very helpful color. Thanks, guys. Maybe just shifting gears a little bit to tariffs. Trying to get some clarity here. From a high-level perspective, our understanding is that some of the tariffs on tank cars, at least imported into the US, have been re-assessed, and potentially there's a 10%-25% tariff on the imported value of those tank cars. I'm curious if you guys are hearing that at all from the manufacturers? If that's factoring into any of your buying decisions, and just how to think about that dynamic going forward?

Paul Titterton:

This is Paul speaking, what I'll say is, you're correct about the existence of the Section 232 tariffs. What I will say is this -- it's a very fluid situation. We've disclosed this previously, contractually, as the buyer of railcars, will ultimately be economically responsible to the extent tariffs will be assessed. Having said that, to date, we've had no material impact to GATX from any tariff assessments. Really, at this point, because the situation is so fluid, that's all we can really say at this point. I will say this, it's not affecting our investment behavior. Most of the new railcars we're taking today are taken under the supply agreement. Really, our investment behavior under the supply agreement has remained consistent.

Andrzej Tomczyk:

Understood. Even at the margin, your behavior around tank car orders hasn't really been impacted by those changes?

Paul Titterton:

Not to date, no.

Andrzej Tomczyk:

Got it. Thank you for that. Then maybe just lastly from me, I'm curious on the ISM positivity of late. I know railcar loading growth has also seen some improvement, especially around ex-intermodal as well, maybe some broadening out of the volumes. Does that bode well for sort of lease rates from your perspective? Are there customers saying, "Hey, rail volumes are growing again. We're going to start leasing more cars." Sort of what are you hearing from the customer perspective there? Thanks.

Paul Titterton:

Sure. This is Paul again. Yeah, obviously, we always like to see carloads rising, certainly the year-to-date metrics are positive. Really, the areas where we're seeing that are intermodal, agricultural, and chemical. Those are kind of the three biggest segment drivers, and obviously, we have a fleet that serves all three of those segments, so that is certainly positive. I would say, though, to zoom out for us, really, what we've been saying for quite some time now about the supply-led market is really what drives our positivity about the business.

The fleet is shrinking, which is a positive for us. The North American fleet is shrinking. If you combine that with rising carloads, that's a fairly good story for us. Ultimately, we see, as carloads grow, more demand for our fleet, and as the North American fleet shrinks, less supply. We certainly see that as a supportive dynamic. I think that's why our pricing and utilization have remained in a fairly attractive place from our standpoint.

Andrzej Tomczyk:

Understood. Thanks for the time, everybody.

Bob Lyons:

Thank you.

Operator:

Our next question comes from the line of Brendan McCarthy with Sidoti. Brendan, your line is open, please go ahead.

Brendan McCarthy:

Great. Good morning, everyone. Appreciate you taking my questions here. Just wanted to have a follow-up question on the guidance increase. It looks like you're taking up guidance $0.30 at the midpoint. You just mentioned you're potentially expecting maybe double the EPS expectation from the Wells Fargo Rail portfolio, which I guess, according to the math, would be roughly an incremental $0.25. Is it fair to think about that $0.30 midpoint increase -- is it fair to think about that breakdown as $0.25 coming from the Wells portfolio and then maybe the remaining $0.05 coming from incremental legacy remarketing income?

Tom Ellman:

Yeah, there's obviously a lot of different pieces that are moving here, and directionally, for sure, that is one of the pieces. We also mentioned the possibility for improved asset sales. Finally, I would note that the Engine Leasing business may do a bit better than we anticipated, as strength continues in that market. We have a few different areas that we could see some benefits, and that's one of the key reasons that you get that range as close to a single point.

Brendan McCarthy:

Got it, okay. On the Engine Leasing business, it looks like the second quarter saw a nice increase at the JV. What was the breakdown there between remarketing gains and operating gains?

Tom Ellman:

Yeah, for year-to-date, we're at about 70% from operating income and 30% from remarketing type activity. For the quarter, that mix was more 60/40, with 60 being the operating component. The first quarter we mentioned was very heavy on the operating income, and we expected that to normalize over the course of the year.

Brendan McCarthy:

Okay. How did the internal portfolio perform in the second quarter? Maybe you can touch on the CapEx outlook there. I don't think any engines have been added to the internal portfolio year to date, what are your thoughts there for the rest of the year in terms of CapEx?

Bob Lyons:

Yeah, Brendan, it's Bob. I'll take that one. Yeah, the portfolio of wholly owned engines is static. Currently, we have not put into our forecast or into our CapEx plan any addition to that. When we did those investments originally, over the course of the prior few years, really going back to the pandemic era, we added those engines at a point in time where it was really an opportunistic purchase -- opportunistic acquisition.

It made sense for Rolls-Royce, it made sense for GATX. We didn't expect that that would be a steady supply of 10 or 15 engines a year because as things improved, there would be other alternatives for Rolls-Royce in terms of financing those engines with other parties or selling to third parties. We're well over $1 billion invested.

Those are going to be great, very strong, high return assets for GATX for a long time. There may be opportunities, kind of spot opportunities to add to the portfolio, but there's no programmatic outlook for that. We haven't factored any of that into our guidance or CapEx plans for the year.

Brendan McCarthy:

Understood, I appreciate the detail. Just last question from me on the LPI, and I'm not sure if you're able to provide this level of detail, but just maybe under the assumption that you renew roughly 10,000 railcars per quarter, can you give us an idea of the magnitude of the sand service railcar renewal during the quarter? Maybe how much of that total composition for the quarter was made up of the sand cars?

Paul Titterton:

Yeah, this is Paul speaking. Unfortunately, we don't, as a matter of policy, disclose car type-specific breakdowns. What we can tell you was -- second quarter was a significantly outsized quarter for sand car renewals. To reiterate the point that Bob made, that was actually a positive thing from our standpoint because we achieved higher renewal success than we thought.

As you know, it is generally optimal for us to keep cars in service with the same customer versus to take them back. We sort of deliberately did something that was, in the short run, harmful to LPI, but in the long term, favorable to economics. When we took over the Wells fleet, and again, this was all priced in, we knew what we were getting. We knew we were taking a large sand car fleet, and we also knew that the exposure in 2026 was going to be significant. All of this is expected, but it certainly has the effect that it has on the LPI.

Bob Lyons:

Yeah, Brendan, it's Bob. Totally understand your question and trying to get as granular as you possibly can. I would just note, we're in a very competitive marketplace, and I can guarantee you our competitors are all listening to this call right now, and they would be thrilled to know what our renewal schedule looks like over the course of the next few quarters by car type -- as we would to know what theirs is. There is some limit on what we're willing to provide publicly.

Brendan McCarthy:

Understood there. Thanks, Bob; thanks, Paul. That's all from me.

Bob Lyons:

Yep. Thank you, Brendan.

Operator:

Our next question comes from the line of Harrison Bauer with Susquehanna. Harrison, your line is open, please go ahead.

Harrison Bauer:

Great, thank you for taking my questions today. Some follow-ups first on some of the renewals. Any color that you're able to provide on LPI in terms of legacy versus Wells, if you can't provide anything specific to sand? Any color around the average renewal term has continued to inch down, really throughout the last two years or so. Anything to read on that or how you're approaching length of terms in your contract renewals?

Bob Lyons:

Yeah. I'll start with the length of term. Anything up in that 50-, 60-month range is a very good spot for GATX to be in. Again, that number can move around quarter to quarter quite a bit based on, or somewhat based on, the types of cars that are getting renewed and where things are from a competitive standpoint, dialogue with our customers, what have you. While it has trended down a little bit, that's certainly not anything of great concern to me or to our team. From a commercial perspective, we're still at a point where lease rates, as we've talked about in prior quarters, while they have leveled off, they've done so at a relatively attractive point. We're still locking in term and locking in very good long-term cash flow.

Tom Ellman:

In terms of the LPI breakdown between legacy and the Wells Fargo portfolio, we mentioned previously that we're running this as a single integrated portfolio; that's what our customers expect. That's what our JV partner expects. No, we're not breaking out the LPI between those two.

Harrison Bauer:

Understood on that. Maybe a little bit more thoughts I'd love to hear with regards to your approach on fleet growth over time. Obviously, the Wells fleet can't add any railcars, but during the second quarter, it looks like you took out a little bit more than 4,000 railcars to overall Rail North America service. What's the right level of attrition we should be expecting in that fleet over time into maybe next year? What would you need to see in the market in order to inflect and start actually regrowing your fleet again?

Bob Lyons:

It's Bob. I'll cover the first point of that question, which is kind of overall fleet size, and just share with you a little bit of our philosophy, which is that we don't really focus intently on whether we have 200,000 cars one quarter or 198,000 the next or 201,000 the following quarter. We have massive scale in this business. We had it before Wells, we have it after Wells 2x. You need scale in this business for sure to run our maintenance facilities efficiently; to have very good commercial presence in the market. Having the size fleet we have gives us all of that.

Whether we have 200 or 198 in a given quarter, it's not a focal point of ours. What is a focal point of ours is optimizing the portfolio, through remarketing, through smart, disciplined investment in adding cars of very specific types. If it makes sense for us in a given quarter, like it did this quarter, where we had really robust remarketing activity, incredible demand from a lot of different potential buyers in the secondary market, we'll sell down more. That's perfectly fine. It's the right thing to do for the shareholder. It's the right thing to do for the business.

I'll let Paul comment a little bit more about what we would need to see for us to really kind of turn up the North American rail investment volume.

Paul Titterton:

Thanks, Bob. Really, ultimately, as Bob said, we're economic actors. We will add to our investments if and when pricing -- whether that's in the secondary market as a buyer or in the new car market as a buyer, when pricing makes sense. That's going to be a combination of what we're paying for the assets, what it costs us to finance them, but also what the market will offer from a demand standpoint. Right now, it's been attractive to us to sell into the market on a net basis. Again, we're going to continue to be economic actors and we'll turn up the investment side of things as and when we see demand characteristics that support investment at current prices.

Harrison Bauer:

Great. Thank you all for all the color there. Maybe just a quick point of clarification. Has there been any transactions between the legacy fleet and the JV fleet? If that's something that we should expect the possibility of going forward? I know you're approaching managing as a whole portfolio, but curious if that's something we can see.

Bob Lyons:

No. There's no purchasing of cars from GATX at 100% level from the joint venture, and wouldn't anticipate that to be the case. If there is opportunities in the future where that might make sense, we'll certainly call that out for you all. Nothing today, and nothing expected.

Harrison Bauer:

Okay, thank you. Last one from me. I'm just curious if you have, or when investors would have visibility on re-upping your long-term supply agreement, and if any color you're able to give about how you're thinking about that in terms of the long-term context of your fleet management. Thank you.

Paul Titterton:

Sure, this is Paul speaking. What I'll say is, for obvious reasons, we can't comment specifically on what our plans will be to re-up or not. What I can say is, as we've said for many, many years, having a long-term supply agreement in place is a key pillar of our sourcing strategy. It's how we meet the needs of our core customers year after year. You can expect over the long run, we're going to continue to, in one form or another, have a long-term sourcing agreement or agreements in place. Really, the timing of those will depend on a number of different factors. Certainly, it remains a core pillar of what we do.

Harrison Bauer:

Okay, great. Thank you all for the time today.

Bob Lyons:

Thank you.

Operator:

Our next question comes from the line of Justin Bergner with Gabelli Funds. Justin, your line is open, please go ahead.

Justin Bergner:

Hello. Good morning, Bob, Tom, Paul, and Shari.

All:

Morning.

Justin Bergner:

Looks like a pretty good second quarter on top of pretty good first quarter, nice work. First question would be, as it relates to the guidance, is there anything that's a headwind to where you started the year? I know you mentioned you're satisfied with how you're performing in Europe in a tough environment, but is the tough environment a potential headwind to your revised guide?

Bob Lyons:

No, on the international side – we came into the year -- we had expected our total segment profit on the international side to be somewhere in the range of $130 or so. We may run a little light of that. Even if we do, from a magnitude standpoint, it's not enough to really change our view on the guidance. It is a challenging market in Europe. It has been for the last few years, really since the war in Ukraine started. There's been more economic headwinds there than tailwinds, but the team is performing extremely well. They've done really well in terms of keeping cars on lease, moving utilization up, getting price increases, albeit not at the level seen in North America, but still, given the environment, that's an excellent performance. Not an issue in terms of the guidance that we gave for the year.

Tom Ellman:

Hey, Justin, if you changed your question slightly, and instead of talking about headwind, you talked about areas of uncertainty or variability, we'd just reiterate what we said at the beginning of the year, which is, first and foremost, obviously, the situation in the world is a little bit uncertain, and one of the areas that we look at for sure is how that impacts us broadly, but specifically the global aviation market. We also note repeatedly the timing of closing remarketing gains, whether it's in the rail portfolio or the engine leasing portfolio, is not always certain. We're very certain on the strength of it, but calling the exact quarter can be a bit challenging.

Justin Bergner:

Okay, that's helpful color. Thank you. With respect to the Other Income in the Engine Leasing business of $13.7 million, which I think followed $3.1 million in the first quarter, you mentioned that's normal in the ordinary course of business, but should I think of these income as sort of reflecting multiple years of service-related work that's kind of releasing in one or two quarters? Or should I think of the first-half rate as being somewhat indicative of what could be achieved annually going forward in that part of the financials?

Tom Ellman:

Yeah, I'll start and let Bob add on if he'd like to. What I would tell you is you should not think of what happened in the quarter as a run rate, just because it's very difficult to predict exactly the timing of those events. It is absolutely true that the idea behind those maintenance reserves is that the cash is available, if needed, for maintenance. It's difficult to precisely say what that means in terms of the long-term life of the engine, because as noted, that primarily happens at the end of lease activity. The degree to which that influences or does not influence the profitability of the engine over its whole life is somewhat dependent on the next lease you put it on, which likely will also have maintenance reserves.

Bob Lyons:

Justin, I'd just add -- part of this relates to the size of the portfolio you have. In the joint venture, we have 450+ engines. Maintenance reserves happen all the time, every single quarter. With a portfolio that size, it does tend to smooth out. Our portfolio of wholly owned engines is much smaller – so things, when they occur, they'll likely be a little lumpier. We've been in -- whether it's aircraft or aircraft engines, the leasing business since 1968, and maintenance reserves have been part of that program, part of those businesses ever since. They're the norm in the industry.

Justin Bergner:

Sure, great. It seems like that was part of the anticipated guidance, so nothing changing there materially, right?

Bob Lyons:

Correct. Right.

Justin Bergner:

Okay. Lastly, your high renewal rate for the second quarter stands out, and obviously that's great for the business. How does that tie into any sort of further tightening you may be seeing in the industry, potential modest inflection in sequential spot lease rates, or any other dynamics as the truck tightness filters through to railcar loads and potentially the leasing side of your business?

Paul Titterton:

Yeah, thanks, Justin. This is Paul. I think you're correct to identify positive factors in the North American rail market. Obviously, carloads are up. Obviously, there are a number of reasons for a tightening of trucking; those are certainly tailwinds for us. Obviously, it's difficult to predict, particularly with both truck capacity and carloads, exactly what direction they take from here. There's certainly uncertainty, but we do view those favorably.

As I also mentioned, we always look at the composition of the overall North American rail fleet, for all owners, and that, as we've said, has continued to shrink. Really, what I would say is the reason we feel positively about the leasing environment in North America, generally, is kind of the combination of those things.

There are reasons to believe that carloads have risen, and as you pointed out, truck capacity has tightened. We've watched the overall North American fleet shrink. I would say overall, we see reasons to feel confident, certainly about a firm lease rate environment and a firm utilization environment, as we've been talking about. Again, there's economic uncertainty, so I hesitate to call an inflection point as you're describing, but certainly, I would reiterate that we feel positively about the commercial environment which we're operating in North America.

Justin Bergner:

Great. Thank you for taking my questions.

Bob Lyons:

Thank you.

Operator:

Our next question comes from the line of Scott Scher with LMJ Capital. Scott, your line is open, please go ahead.

Scott Scher:

Hey, guys. A couple questions. Can you comment on the fact that you pulled forward your purchase of the incremental 10%, I guess it was, or 7%, whatever it was, your option? You exercised it early. Can you comment on that and the message that it's sending with respect to your optimism about the Wells Fargo deal? Then I have one or two follow-ups. Thank you.

Tom Ellman:

I'll just speak factually on it and then let Bob add on anything. We did not pull forward. The first option was set at June 30th, and typically what those options will be is to buy 10% of Brookfield's share or 7% of the JV. The first year is a half-year option, so that was 3.5% total. But, it was not a pull forward.

Scott Scher:

Got it.

Bob Lyons:

Yeah and Scott, our expectation going forward is that we're going to exercise those options. They are options, so we're not obligated. We'll review it every year. The expectation is that we'll exercise those as we did at June 30 this year.

Scott Scher:

Okay. I think --

Tom Ellman:

Total cash outlay was $66 million.

Scott Scher:

Okay. I think it's been about 18 months since the announcement of the deal. I just want to refresh my memory. We bought that portfolio, it was ostensibly book value. In our first year, we are increasing our remarketing gains and some of which are attributable to the portfolio that we bought just 18 months ago at book value. Is that factually correct?

Bob Lyons:

We actually bought it on January 1st; we closed on the transaction on -- we announced the deal that year. Yeah, we announced on May 29th, which happens to be our Chief Financial Officer's birthday.

Scott Scher:

Okay.

Bob Lyons:

We'll just add that -- we announced on May 29th; we closed on January 1st. Yes, we are selling assets out of the joint venture portfolio at above book value for assets that we bought on January 1st.

Paul Titterton:

If I can just add, Bob, I was going to add that that's one of the things we liked about the Wells deal so much is most secondary market transactions in this business occur at a premium to book. By buying at book, we thought we were buying value, and I think what's happened since has demonstrated that.

Scott Scher:

Yeah. I'm just reiterating that for the people that don't understand -- who don't want to put a value on your remarketing gains.

Bob Lyons:

Appreciate that.

Scott Scher:

I'm trying my best. If we do this each year, and we buy our options, and our options price is set at the time of the deal, which is ostensibly book value, then it's sort of a foregone conclusion that we will keep booking gains unless somehow these assets were to go down in value.
Right? If six months into it, if I bought something on January 1, and six months into it I'm booking gains, and the price was set last time without any incremental up, then I'm going to keep sort of booking gains, and I control the timing by which I book the gains, and I control the option. Correct?

Bob Lyons:

I would not argue with that assessment, Scott; that is correct.

Scott Scher:

Okay. We're going to control the size of our portfolio over the next number of years, but our SG&A shouldn't go up. The operating leverage in the business should be enhanced over time, and that -- as the portfolio goes up in size, we're not going to have to increase people to manage it. That's always been one of the nice things of the company. That's still a factor, correct?

Bob Lyons:

Yeah, as we said back in January -- I'll reiterate it again, we doubled the size of the fleet. Literally doubled the size of the fleet, plus add on the managed portfolio that we're undertaking for Brookfield that they bought directly, which was north of $1 billion. By doing that, our SG&A this year will go up roughly 10% -- that includes kind of standard inflation SG&A increase of 3% or so. We've been able to double the size of the fleet, add to our managed portfolio significantly, and we've added roughly 50-60 people and maybe 5% to our SG&A total. Lots of leverage in a positive way.

Scott Scher:

I wanted to get you to say that. Last question as it relates to the deal. You said at the time of the deal that the savings that were attributable to the maintenance network, bringing that in-house, would take time, probably one to two years. Can you just give us an update on the timeline to getting those savings that presumably are a little harder operationally to get, might take some time? Can you give us a little update on that, if you would, that'll let you guys go. Thank you so much.

Bob Lyons:

Thank you, appreciate it. That timeline is still the same, where it would be probably a couple of years before from a capacity standpoint. We have the room to move some of the Wells cars through our own shops. That's really driven by the fact that our wholly owned facilities today are at full capacity with the GATX legacy fleet. The Wells fleet's a little different because it's a freight car fleet. We can manage that very effectively through the third-party network. I also said back in January that despite the fact that we're not moving those cars in the next year or two into our network, we would still see benefit. We believed we would, by managing that third-party network as tightly as we manage our own.

As Tom alluded to earlier in the call, we're already seeing benefit of that, a little more materially than we probably expected, that's part of the uptick in the guidance is we felt very strongly that we could bring additional focus and attention on that third-party maintenance line, we're seeing it in a positive way.

Scott Scher:

That's all good news. The little metrics that are bouncing around as you bring in the portfolio of cars that are disparate from the ones you own, and not cars that you historically have owned -- sand cars and stuff like that -- that's going to cause a little more volatility in some of the KPIs or some term that people created over the last number of years, that really aren't generally relevant to the story here, right? We bought 10 years' worth of purchases in one fell swoop. We control the timing at which we buy them, we control the timing at which we sell them; and six months into it, we have complete evidence that we bought them at a good price. Right? The KPIs month to month, 56 months versus 58 versus 42, is completely irrelevant to what we think we accomplished. Correct?

Bob Lyons:

Well, Scott, as you know, we tend to think in terms of decades. Any performance metric on a quarterly basis or a monthly basis is not going to give us tremendous pause. What we are optimistic and feel very good about is that six months after the acquisition, the theories under which we took the investment are playing out, and probably playing out a little faster and a little better than we thought. I don't see that changing over the next 10 years.

Scott Scher:

Thank you so much, guys, for all the time. I appreciate it. The clarity on the answers to the questions was great, as always. Thank you so much, guys.

Bob Lyons:

Thank you.

Operator:

We have reached the end of the Q&A session. I will now turn the call back to Shari 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. Have a great day. Thank you.

Operator:

That concludes today's call. Thank you for attending. You may now disconnect.