GATX Corporation

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Andrzej Tomczyk: All right. Good morning again. This is Andrzej Tomczyk for round 2 of railcar manufacturing and leasing portion of the Goldman Industrials Conference. We have GATX and CEO, Bob Lyons, joining me on stage. Bob, thanks for being here.

Robert Lyons: Thank you. Andrzej, I appreciate it.

Andrzej Tomczyk: Maybe just to kick off before getting too much into the Q&A, if you want to just maybe give a brief overview of GATX and sort of what the business does and your story?

Robert Lyons: Sure. Well, we're a bit of a unique animal. We've actually been in business now for 127 years. Always based in Chicago, we started out as a railcar leasing company and that's still what we do today, predominantly. With a very big footprint in North America, one of the largest fleets and soon to be the largest, after we close on an acquisition of Wells Fargo Rail.

We also have a very big presence in Europe, close to 35,000 cars in our European fleet, another 12,000 roughly in India. And then we also have a very large aircraft engine leasing business that GATX many, many decades ago, used to be in the aircraft leasing business. And during that time, we formed an engine leasing joint venture with Rolls-Royce. We sold the aircraft side of the business back in the early 2000s, and we kept the leasing business. So it's a very big part, an important part of GATX today.

So our basis is leasing long-lived assets widely used with a service component and where we have very unique asset knowledge.

Andrzej Tomczyk: Great. That's a great overview. Maybe just to jump into the Q&A portion with some company specific, and you mentioned the Wells acquisition, so I'll start there. Can you just explain to the audience what this deal sort of potentially does for your fleet and business to start and then maybe also get into the structure of the deal, maybe what you're personally excited about most?

Robert Lyons: Yes. It's a very big transaction. I think probably the largest ever done in the railcar leasing space in North America, certainly the largest GATX has ever done. Our fleet today is about 110,000 cars roughly. The fleet we're buying from Wells Fargo is 105,000. So a combined fleet of over 210,000 cars, plus our partner in the transaction is Brookfield Infrastructure. We can talk a little bit about how that came about and the mechanics of the deal itself.

But Brookfield will be acquiring another 27,000 cars directly from Wells that are on finance lease. That's not an expertise of GATX, but we will manage those cars for Brookfield. So in total, it's roughly 130,000 cars coming into the fleet and doubling the size of our footprint by car count in North America, about a $4.5 billion deal just for the portion of the fleet that we're buying.

Andrzej Tomczyk: Yes. And so it's expected to close in the first quarter. Regulatory approvals sort of already have progressed for the most part. What are the immediate priorities sort of after the deal goes through with integrating that fleet? Can you just talk about that and maybe how quickly you anticipate realizing some of the synergies around SG&A and maintenance, things like that?

Robert Lyons: Sure. Well, the- one of the things that's very appealing about our business is that it's very scalable. So we can bring in this portfolio under the GATX umbrella and not have to add a significant number of heads. So we're going to be -- we'll add some people. We're going to bring some people in from Wells Fargo Rail. But by and large, we're going to be operating the fleet commercially, operationally in a very similar manner to what we do with our own.

The priorities really right away are -- it's a very big, at this point, kind of an IT undertaking to get all of the data, the mechanical records, to get everything else transferred over on day one. We have been very fortunate that Wells Fargo Rail is based in Chicago, as are we, down the street from us. And through industry contacts, we know a lot of the people at Wells Fargo Rail and vice versa.

So they've been extremely helpful in terms of setting up for this transition and have been very heavily involved, very collaborative. So we appreciate that. But day one, it's really getting all the records, the leases, the mechanical data, the engineering data, everything else moved over on our systems day one, and we're set up very well to do that. And then it's a commercial undertaking. We have a lot -- I have not seen for antitrust reasons, the exact customer list of Wells Fargo Rail, but I can surmise it looks a lot like ours. So there will be a lot of customer contacts, a lot of customer interaction as we bring all of those cars into our fleet.

Our customers are already very well aware of the transaction, and they're very positive, very encouraging in terms of GATX being the owner and manager of these assets going forward. The people side of it, we need to get some people transferred in. And then longer term, it will be much more focused as well on the operational side.

So from a synergy standpoint, we'll get the SG&A synergies quickly because we don't need to bring in nearly as many people as Wells Fargo Rail has as a stand-alone entity today, which makes sense. So we should realize SG&A synergies fairly quickly. Longer term, on the operational side, GATX does its maintenance on its cars. We own our own network of maintenance shops. Over 85% of the primary repairs we do in a given year, which are 30,000 to 35,000 service events in a given year, we do in our own shop. We view that as a competitive advantage.

Wells Fargo as a bank can't do maintenance. They can't undertake an operational activity like that. So they use all third-party maintenance providers. So longer term, we feel there are maintenance synergies as we manage that side of the business the way we do our own and ultimately begin to feed some of those cars into our own shops versus third parties.

I think importantly, when we looked at the economics of this transaction and the value of this opportunity for GATX, we didn't put $1 of value on maintenance synergies, but we believe they're there.

Andrzej Tomczyk: In terms of you talked about modestly accretive, but becoming more accretive over time. Is that sort of in that formula is the maintenance coming in-house more over time? Are there other aspects that you're thinking about in terms of becoming more accretive over time?

Robert Lyons: Well, I think maintenance is one piece. Commercially, I feel we have the best commercial organization in the world. Our North American team, we have an extremely deep customer base, long-standing relationships. And I think there's opportunity there as well to continue to do more with our existing customer base. That will be positive. Just in terms of the dynamic portfolio management philosophy we have, we're the biggest owner of railcars in North America, but we're also one of the biggest sellers. So we're always recycling the portfolio.

And with a bigger fleet, there'll be more opportunities to do that. And so I think there's a lot of different things that GATX does on a given day that we can apply to this portfolio that will add value.

Andrzej Tomczyk: That makes sense. Maybe just you talked a little bit about the deal structure in terms of how that affects your capital allocation. Can you just -- so GATX has initial contribution to the Wells joint venture, it's measured, reasonable. How does the option to incrementally acquire the additional cars over time influence sort of your broader capital allocation strategy?

Robert Lyons: Sure.

Andrzej Tomczyk: And then I guess on that, too, would it be fair to say that you guys -- your intention would be to acquire all those cars over the 10-year period?

Robert Lyons: I'll take those in order. Those are good questions. And for those that are not as familiar with the transaction, day one, GATX and Brookfield Infrastructure Partners are buying the Wells Fargo Rail portfolio together. Brookfield is the 70% owner day one of the joint venture, GATX is 30%. But GATX controls the portfolio. We have three board members. They have two. The day-to-day activities, all of the commercial operational aspects are controlled by GATX.

And we will consolidate -- fully consolidate the portfolio onto our income statement balance sheet, cash flows, et cetera. While it's 30% day 1 for GATX, 70% for Brookfield, we have annual options over a 10-year period to buy Brookfield out and those are options. Our expectation is we'll exercise them.

So from a capital standpoint, it spreads out the capital requirement to acquire the portfolio, which is beneficial. We're an investment-grade rated company, BBB and BAA2, and it was very important for us to maintain that investment-grade rating and the structure of the deal allows us to do that. But yes, we're -- we anticipate that we will exercise those options, but we're not obligated to.

Andrzej Tomczyk: So this -- the deal itself sort of introduces a level of diversification into your fleet. And so can you just talk about that, how your fleet was a little bit different than Wells and sort of how that -- how you think about that changing your sort of model going forward?

Robert Lyons: Well, it really won't change the model that dramatically going forward. I think it's important to note that every car type in the Wells fleet, we own at some level. So we're familiar with every single type of car. And for those that don't live and breathe the railcar leasing business every day, there's a lot of different asset types. We have over 160 different types of cars in the fleet.

Historically, GATX was more 50% tank cars and 50% freight. Tank cars carrying all kinds of chemical products, pressurized gas, et cetera. And then every type of freight car, you can imagine. And that was normally the mix of our fleet somewhere in that 50-50 range. Post acquiring Wells Fargo, it will be more skewed towards freight, probably 65%, 66%, somewhere in that range, freight, the balance tank.

Tank is still a very big part of the portfolio at GATX and always will be. It is kind of the foundation of our leasing business. But adding those additional freight cars doesn't really skew or change our strategy going forward. What it does do is provide us a lot more customer touch points, a lot of opportunities to get greater share with customers. And as I said, we're a very big seller of railcars in the secondary market.

And so when you are occasionally part of your business model is taking some of those leased assets and selling them to other lessors, other financial institutions, it's great to have a bigger inventory to work with.

Andrzej Tomczyk:

Yes. And so to that point, 65% freight cars now in network post the deal. My understanding is those are more liquid and active sort of in the secondary market. Is it your, I guess, expectation that you will sort of lean more into the secondary market given the change in mix a little bit?

Robert Lyons: I think it will be proportional to what we're acquiring.

Andrzej Tomczyk: Got it.

Robert Lyons: So we'll we're going to manage the entire portfolio as GATX owned. So with a fleet that's 2x the one we have today, we'll be in the market probably on a proportional basis that much more. The nice thing is you have a much bigger inventory to work with. And there may be some customers where -- when the fleets are combined that are okay with us selling down because they may be a little bit more weighted to GATX than they might otherwise want to be. They like to keep a mix too of providers. So we have a great opportunity here to work with customers that we know that we've dealt with for 30, 40, 50 years to optimize the portfolio.

Andrzej Tomczyk: Can you talk a little bit about actually selling the cars and buying them in the secondary market? What's that process like? And just maybe like your sales force, how does that -- how do you manage that given there's a ton of cars that you guys are selling a ton of different cars, a big fleet. You're very active in the market, but how do you go about identifying those opportunities? And you've obviously done it over the long term. So just curious there.

Robert Lyons: Yes. We actually have a whole separate group within GATX, a small team, that's what they do. Their whole day job is being active in the secondary market, both buying and selling. And all of that is opportunistic. So we may go into a given year with an idea of here's some customers or here's some car types or some portion of the portfolio from a duration perspective where we may want to sell down, and that team goes and executes that.

Now one of the -- in the secondary market for railcar assets in North America is quite large and very liquid. I'm not sure who, but today, somebody will be buying and selling railcars in the secondary market. It happens all the time. When we put a package out to potential buyers, it's probably 25 or 30 different institutions that will look and bid on a portfolio. And we don't sell in huge blocks.

We may put a package out that has 1,500 cars in it, but it's comprised of 10 or 15 different transactions. And a buyer -- prospective buyer can bid on the whole thing or individual. And so then we stack those up and we look at what's the best return for the shareholder.

In the end, we have hold values. We have very defined values around our expectations for future lease rates, maintenance expense, utilization for all the cars. We factor that in to our hold value, and we look at what the market is willing to pay. We also have to look at relationships. We sell tank cars less frequently than we sell freight because tank cars are more service intensive.

And many of our big customers, whether in chemical, fertilizer, agriculture or food industries, they want GATX doing the maintenance on those tank cars. That's why they did the lease initially, and we respect that. So we'll hold those cars oftentimes until the end of the car's life.

Andrzej Tomczyk: The gains on sale have been sort of much higher, post-COVID, in general. You have a new car market where cost of a new railcar is going higher. Is that pushing more of these buyers into the secondary market? Is that -- is that still a phenomenon that's sort of occurring this next year?

Robert Lyons: Yes, that's a great question. And yes, it definitely has an impact because you have a big universe of railcar lessors out there that want to add to their portfolio. They want to grow their business. They have their own objectives for adding cars to the fleet. And right now, buying new cars, you can do that. The prices are because of inflation, interest rates, what have you, labor, cost of a new car is higher today, materially higher than it was five or six years ago.

An alternative to buying new is buying used. And so that's the secondary market. The railcar manufacturers, the two big ones in North America, Trinity and Greenbrier, we think, have done an outstanding job of kind of rightsizing their manufacturing footprint for- to meet a more stable long-term demand. So even if you wanted to buy a new car today, there's a lead time for that, right.

Andrzej Tomczyk: Maybe shifting a little bit. I want to talk about some of your other geographies, specifically starting on GATX Rail India. Your operation in India continues to show utilization rates of about 100%. So it's fully utilized. You were the first private railcar lessor in India as well, and the government there still has a large sort of market share. But in general, we hear significant Indian sort of infrastructure investment boosting rail sort of production prospects over time, I should say. Could you talk a little bit about the market in India and what are the future growth prospects there and the potential size of your fleet?

Robert Lyons: Sure. So as I mentioned, we have roughly 12,000 cars today in India. As Andre mentioned, 10 or 12 years ago, that was 0. We entered the market in India on our own, and our team there worked with the Indian Railway to obtain the first leasing license in India for railcars. And they've done a great job of going from that point, basically from an idea to a fleet of 12,000-plus cars.

And I think the growth prospects remain incredibly strong for the next 10, 20 years. If you think about infrastructure development in India, and for those who had the opportunity to go there, it's a pretty fascinating trip to take, seeing a country of 1.2 billion people that's building out in every major city and not even to mention eventually a push into the rural areas, schools, homes, hospitals, government buildings, roads, everything you can think of from an infrastructure standpoint under development.

I think the entire crane industry is somewhere deployed in India these days. And the products that are being used for that infrastructure build-out, steel, cement, those in lumber, others, they all move by rail. The most efficient way to move that product is to move it by rail. And so you have a market that's -- you can really see the demand projections holding true over the long term. And it's that infrastructure development, the development of India overall that's driving that.

The Indian railway has been a bit of a unique animal in that it historically controlled all the rail movements in India and the fleet itself. And they still do all the maintenance on all the cars in India, which may change at some point in the future. But the Indian Railway has studied the North American market very, very closely and definitely has recognized over time that they don't need to own all the rolling stock. There are others, whether it's shippers or lessors like GATX that can do that more efficiently. And so it's shifting.

Andrzej Tomczyk: And if that does come in-house over time in terms of maintenance over there, is that something that also helps sort of your margins?

Robert Lyons: It helps margins. But I think the bigger driver is the differentiation of what you can offer. There's a robust leasing market over there, primarily from banks or other financial institutions that- who we compete with typically. And we differentiate ourselves in India through different means, new car designs and development and things that we utilize in North America, we've been able to utilize and deploy in India. So we are -- we do differentiate our offering over there. But the big differentiator is providing maintenance, which we do in North America. And at some point, we certainly would like to be in a position to do that in India.

Andrzej Tomczyk: And North America is still your largest business, and -- but I just want to touch on the European market as well. You also made -- recently made an acquisition, DB Cargo as well. So I'm curious, you know, the utilization in Europe has declined. I know that the market has been a little bit pressured over there. Could you just share sort of how you're viewing that market right now heading into 2026? And also just on the DB Cargo acquisition, you're sort of a countercyclical

investor. I think that's a clear example. Europe is under pressure. You're making the acquisition. Talk about that as well and sort of how that sets you up?

Robert Lyons: Yes. Well, the -- we have one of the biggest -- third largest fleet in Europe among the big lessors. Again, we provide maintenance there. So operationally, it looks very similar to North America, similar customer base as well. And so we think there certainly are economic headwinds, tariff concerns, high energy costs that are negatively affecting the business and the industry right now, carload movement in Europe. And that's likely going to continue into 2026 for sure.

But our commitment and our view of the business long term has not changed. We think rail continues to be the most efficient way to move product, the safest way to move product. You have the European Union pushing more of the green deal to move more product from truck to rail. The roads are highly, highly congested, and there's a lot of products still moving on road that can move by rail. The fleet is -- the national fleet is older in Europe than it is in North America. So eventually, there will be replacement opportunities, and we're certainly seeing that even within our own fleet.

But to your question about DB Cargo, DB had some financial hurdle or benchmarks put on it by its owner, which is the German government to generate more cash. They own a very, very large portfolio of railcars, close to 60,000, I believe. And one way to generate cash is to monetize some of those assets out of the rail portfolio, out of the rolling car -- rolling stock portfolio. So that was a really successful transaction for us because we're able to buy 6,000 cars and immediately, they're back on lease to DB Cargo for two to seven years. And as they come off, we can renew with DB Cargo or redeploy to other customers.

And we think other potentially railroads in Europe will look at that same avenue for monetizing some of their assets. And some of the stress in the marketplace among the big lessors, VTG, Ermewa, ourselves, we can withstand market cyclicality. We've dealt with it for 100 years. Some of the smaller lessors can't. And so we think there's also some other car owners in Europe that may -- 2,000 cars, 3,000 cars in a portfolio that may look to exit over the course of the next year or 2, and we'll look to capitalize on those opportunities.

Andrzej Tomczyk: Makes sense. Maybe shifting again to your -- I want to touch on your aircraft, the spare engine leasing business. Aircraft and specifically engines have been an area of the market that's been more constrained in terms of supply as well. So curious if you could just give us an overview of your spare engine leasing business today versus even, say, pre-COVID and also how that performed in the midst of COVID. I think that's important as well.

And then just given the short -- the supply shortage there and the high demand in that area of the market, is that an area where you guys sort of continue to see gains push into, I guess, 2026 and even lease rates in that matter as well?

Robert Lyons: Yes. So for a quick history moment, we started the joint venture with Rolls-Royce in 1998 as a 50-50 JV set up to lease aircraft engines into the market to other airlines also to -- as a means to sale and leaseback to Rolls-Royce, the parent. And we formed the joint venture with a relatively small equity contribution from both parties, and it has self-funded its way into one of the largest engine portfolios in the world. And you're absolutely right from the standpoint of the pandemic, if nothing else, the pandemic proved the resiliency once again of that asset class. Engines hold value, great stores of value over decades. And there, we had a situation where global air travel, particularly international, nearly went to 0 for an extended period of time. We remained profitable. It was a challenge and our RPF team, they operate out of- their offices are in London, did an excellent job of keeping assets on wing. Cash collections remained relatively high. And airlines, again, you can park some aircraft here and there, but you can't run an airline without spares, and that's our business. So as we sit here today, whether it's Boeing or Airbus, they have not produced aircraft at the pace they anticipated. So those deliveries are getting pushed well out. That's keeping assets

that are in place in high demand, and the engines are benefiting from that. So definitely, we're seeing an opportunity both to re-lease at very attractive rates to occasionally sell or tear down engines at great value. And we're going to continue to grow that.

You mentioned before about our risk countercyclical mentality, and that definitely came into play in this business because prior to the pandemic, every engine we invested in, every transaction we did, everything was direct through the joint venture. Pandemic hit, Rolls-Royce, obviously, engine deliveries and everything else started to become more challenging because airlines were stretched. And we had discussions with them about the opportunity for -- and the joint venture itself was not in an investment mode. The edict to the JV was manage the existing fleet. That's still left an opening or an opportunity there for somebody to buy engines directly. And so when the world was not flying and aircraft and- were parked everywhere, we reached an agreement with Rolls-Royce to buy engines directly over a multiyear period to be managed by the joint venture. So today, we have over $1 billion of direct investment on top of the 50% interest we have in almost $5 billion of assets in the joint venture.

Andrzej Tomczyk: It's a very helpful overview. I do want to ask, did you guys feel any sort of impacts from the government shutdown in that area of the business?

Robert Lyons: Not really, other than we're in the midst of trying to close the Wells transaction, and we need some government approvals. And when the government goes on holiday around hiatus, there wasn't much we could do. So the process got dragged out a little bit. But everybody is back and focused. And so we're still very optimistic we'll get the final couple of approvals that are needed.

Andrzej Tomczyk: I know we have a couple of minutes. I have one sort of broader question I want to get to. But before that, I wanted to get your take on sort of the upcoming -- like in the near term sort of relative to what expectations you guys had set on the last earnings call. Any sort of -- is it more of the same sort of in the fourth quarter? I know you guys don't guide quarterly, but how does -- how are you thinking -- how is the market shaping up relative to sort of what you guys talked about?

Robert Lyons: I don't want to comment too specifically, but I'd just say since we released at the end of October, nothing -- there's been no significant developments in the marketplace that would kind of alter our view.

Andrzej Tomczyk: Yes. And then just this is a- I want to get your perspective on this question as well, touching on the topic of modal shift potential from rail to truck and potential for Class 1 rail consolidation, Union Pacific merging with Norfolk Southern potentially 2027. There's two sort of sides to that. If the rails can become more efficient, get rid of interchanges, speed up the cycle time for every car across the network, maybe you have a reduced sort of car around the network broadly. And so I'm curious your thoughts on that, if that sort of reduces the demand for new railcars in the future potentially or if you're more in the camp of rails can sort of improve efficiency and then take share and that sort of helps potentially grow the fleet?

Robert Lyons: Yes. I think there's definitely a balance there, right? So if the rail -- if UP/NS merger goes through and they deliver on everything they expect to and are able to operate the railroad more efficiently, faster turns, that would mean fewer railcars. At the same time, their additional view is we'll bring more product from truck to rail, and that means more railcars. So, a lot of years ahead of us before we see how that all plays out. But I think with the diversity of our fleet, customer relationships we have, everything else, we'll navigate it quite well. We've certainly navigated other changes in the North American rail industry over the last 100-plus years. So, we're in a good position to do so here.

Andrzej Tomczyk: Well, I appreciate your perspective. And Bob, thanks for joining me today.

Robert Lyons: Andrzej, thank you, and we appreciate the invitation to be here.