GATX Corporation

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Unidentified Analyst: Okay. Well, thanks very much, everybody. I appreciate you jumping back in after lunch. We're very excited to get back started with our transport and transport-related track this afternoon. So we have GATX joining us to start off the afternoon. From the company, we have Robert Lyons. He's President and CEO. Very happy to have you back at the conference. So thanks for the support.

Maybe the best way to start is to kind of kick it over to you to talk a little bit about the company's sort of competitive advantages, how do you think you maintain market positions. Just kind of where you see yourself in the market and the competitive landscape today.

Robert Lyons: Sure. First of all, thank you for the opportunity to be here, and thank you all for attending and hearing the GATX story. It's always nice to play a home game. We've been in Chicago for 127 years. Started here as a railcar leasing company in 1898. That's still what we do today. I'll spare you the details on the other intervening 127 years, but we are focused on the railcar leasing market. We also have a sizable aircraft engine leasing portfolio and a container leasing business based out of the Netherlands.

But the bulk of what we do is, as I mentioned, in railcar leasing. Our expertise in that market has been really honed over years. We are a full service operating lessor. So we put the cars out on lease to our customers, over 800 of those here in North America. And whether it's over a 5 or 7 or 10-year term of that lease, we have the cars that will meet our customers' needs, highly diversified fleet. And we do the maintenance, a competitive advantage for us and a big differentiator. We touch the assets every single day. That affords us a relatively deep asset knowledge on how those assets are going to behave over their 30, 40-year life, and something that our customers have come to rely on GATX for safe, quality, efficient service.

Unidentified Analyst: So there's some news recently with the Wells Fargo Rail asset acquisition. So maybe you could talk a little bit about that, provide an overview of the transaction. Maybe talk about what was the drivers of you guys executing here.

Robert Lyons: Sure. So yes, roughly a week and a half ago, we announced that in partnership with Brookfield Infrastructure Partners, we would form, or had agreed to form a joint venture which will acquire all of Wells Fargo Rail's assets. The joint venture is going to acquire 105,000 railcars directly of which will be in the joint venture with GATX as the controlling partner and manager of those assets, and we have options to buy Brookfield down over a multiyear period.

In addition to that, Brookfield is going to buy 23,000 cars and roughly 400 locomotives directly from Wells. Those are on finance leases. That's a bit of a different animal than what we typically do, but fits well within the Brookfield universe. And we'll manage those, too.

The opportunity there really is to fully leverage the platform we have here in North America. We have the best commercial and operational team in railcar leasing in North America. Outstanding customer base. A highly diversified fleet. And we can add to all of that through the acquisition of this portfolio.

Unidentified Analyst: You talked about that option with Brookfield to kind of buy them down, get you up to 100% of the JV over time. So I guess, how do we think about that? What's the value creation opportunity for you? What would be the trigger points that you'd look at to kind of execute on those options over time? So maybe walk through the structure a little bit.

Robert Lyons: Sure. It'll initially be a 70% equity ownership of Brookfield, 30% of GATX. And we have annual options which will allow us to essentially buy them down if everything kind of proceeds according to plan over a 10-year period. So 10 options. If they actually extend longer than that, to the extent we choose not to exercise one option, there's a cure period. The benefit of doing it this way, first of all, is bringing the partnership together, our asset knowledge, our operating expertise in the market with many benefits that Brookfield brings to the table in terms of their relationship with Wells, which was very important here. Their financial scale and structuring capabilities all are beneficial.

From our perspective, doing it in this manner allows us to control the assets from day one and control the portfolio from day one, but keeps GATX in a very flexible financial position. We want to continue to be able to invest in all of our markets, in Europe, in India, in aircraft engines, in our tank container leasing business. And through this joint venture structure, we retain that flexibility, we retain our credit ratings, our investment-grade credit ratings, which all three agencies reaffirmed shortly after we made the announcement. So a lot of benefits on both sides.

Unidentified Analyst: And like you said, if this plays out according to plan, it'll get exercised sort of pro rata over the 10-year period.

Robert Lyons: Correct. And our expectation is that we will exercise those options and eventually take 100% of the ownership of the pool. But the key is we're not obligated to. So if something transpired in the financial markets or in other, could it be in the rail market, unlikely. But if something unforeseen occurred, we would have the flexibility to not exercise in a given year and make it up at a later date if we wanted.

Unidentified Analyst: Can you pull any of that forward?

Robert Lyons: Not technically, but based on the use of cash flows and asset sales during that 10-year period, some of those proceeds can be used to buy down shares. So it may not be a full 10 years. It could be something shorter.

Unidentified Analyst: Okay. Got it. That's helpful. So I think you talked about the transaction being modestly accretive in the full year after closing with I think more material contribution beyond that. Maybe talk a little bit about sort of the revenue and platform opportunities that you see, and maybe kind of walk through what that material contribution afterwards might look like.

Robert Lyons: Sure. You'll do your best to try to pin me down on what material contributions mean. And I'll do my best to give you some guidance.

Unidentified Analyst: I appreciate that.

Robert Lyons: But until we close and truly own the assets, it's a little bit difficult to weigh in. But accretion is the order of the day. The benefits long term for GATX are the fact, again, we're going to continue to diversify our fleet. I think it's a very good outcome for our customers. We'll have a broader pool of assets to be able to make available to them. They can manage their railcar needs now through one entity as opposed to ourselves and Wells. So we think there are many of the benefits we bring to the assets we buy today, whether it be commercially or operationally, we can bring to this portfolio, too.

And from an operational perspective, Wells Fargo Rail, because of regulatory reasons, they have to outsource all their maintenance to third parties. We'll continue to do that initially. But being a maintenance provider and an owner of facilities in North America, we have a pretty deep knowledge of the maintenance cycle, and we think we can bring a number of benefits to bear on the portfolio through that avenue as well.

Additionally, and on top of being one of the biggest buyers of railcars in North America, I think [audio gap] -- assets as well in what is a pretty liquid secondary market here in North America. This is a nice inventory addition to be able to selectively pull assets from this pool and potentially sell down at some point in the future.

Unidentified Analyst: Got it. So I think maybe talk a little bit about the North American business and sort of the percent of lease versus own in North America has increased over time. I guess maybe what do you think of the outlook, the long-term outlook about the mix of the business, and do you see a similar trend on the international side?

Robert Lyons: Well, the biggest shift in the lease versus own has really been among the Class 1s. So they've pared down the number of railcars that they own. They're probably down to 14% or 15% of the total 1.6 million in North America. They may pare that down a little bit more, but that big move has kind of been made, and we and other lessors have been the beneficiary of that. We think whether it's customers or the Class 1 railroads, they'll continue to look at leasing as a real flexible option for them and one that ties up less capital. We can manage the maintenance for them. And so there are very clear benefits to leasing versus owning.

They'll always likely own some share. And that's the same for shippers to our customers. A lot of our big customers own some portion of their own fleet and then will lease in the bulk of their equipment. We see that continuing. And in Europe, the bigger driver in Europe is really not so much lease versus buy, but truck versus rail and the government's push across Europe to move more product from truck to rail. And the green initiatives in Europe we see as a real nice tailwind for driving increased demand for wagons in Europe.

Unidentified Analyst: And those will be on the lease side, you'd imagine?

Robert Lyons: I believe so, yes. The benefits are the same there. We do maintenance in Europe, and we can bring those same benefits to our customers.

In India, the growth prospect is quite different and very strong because you have a country of 1.2 billion people that's continuing to industrialize, grow, infrastructure needs. Whether you pick your period, 10, 20, 30 years, they're going to need a lot of steel, a lot of cement. A lot of coal gets moved, automotives, and a lot of that will be moving by rail.

Unidentified Analyst: Okay. Okay. I guess, how do you think about tariffs and how they impact the business? I think we've talked a little bit about the market, leasing market being supply-led. So maybe how do you think about tariffs and how that impacts the market?

Robert Lyons: So the supply-led recovery we've seen in our market over the course of the last few years continues, whether it's Trinity, Greenbrier, Union Tank, FreightCar America. The big national steel, the big builders in North America have been very disciplined about, in some cases, paring back their manufacturing capacity and bringing it much more in line with replacement demand. So that's a benefit to everybody in the marketplace.

And tariffs right now, the biggest impact we see is the uncertainty it causes among our customer base. So for our customers, whether it's food and ag, chemical, fertilizer sectors, what have you, auto, they like visibility. And right now, predictability and visibility are tough to come by. So their decisions regarding new railcar ads are slow in coming.

When I look at the market, when we look at the market right now, it still remains very bifurcated. For the installed base, the 1.6 million railcars that are already in service in North America are 110,000. Demand for that is very high. Customers are very eager to hold on to what they have. Adding is a different discussion. That's why new car placements are more challenging today than an existing car renewal. And we see very attractive lease rates on existing car renewals. It's more challenging on the new car side. And that's the biggest place we've seen it.

Unidentified Analyst: And it's more just companies sitting on their hands, to some extent, trying to wait out the uncertainty that we're in to get some degree of trade certainty.

Robert Lyons: Exactly. We renew 20,000 cars a year, so we have a lot of customer interaction. And we do it in very small lots, 200, 300 cars at a time or less. So we're constantly getting feedback from our customer base. And that's what we hear the most is it's hard to predict, can't plan. Not of the mindset of, okay, let's go add 500, let's add 1,000 cars. It's definitely keep what we have. The growth side of the equation is much tougher.

Unidentified Analyst: So how does the pipeline develop in a situation like that? Is it an extend where they say, well, we think we want these cars, but maybe let's see if we can get a later date where we take them, or anything different there? And any maybe sort of specific color by car type as well?

Robert Lyons: Sure. And I think this kind of cuts across almost all car types. They will commit to term leases on that existing fleet, for sure. We're doing on average 4 to 5-year renewals, somewhere in that zip code. So they're committing for a pretty attractive period of time. But again it's just, it manifests itself more on, I'm going to add to my fleet, I'm going to scale up a little bit, we're not seeing that.

Unidentified Analyst: Okay. And then I guess, maybe drilling down a couple, you mentioned auto. I'm just curious how that's played given what we've heard about tariffs. We had the rails here earlier today, and I guess there's maybe some mixed dynamics. I think UP's talked about auto being down, CP on the cross border side. So it's kind of running pretty close to what they would expect. So I don't know if you have any thoughts there.

Robert Lyons: No, utilization of our fleet has remained quite high. Again, I wouldn't say there's a tremendous amount of active dialogue about adding to those fleets, but existing rolling stock remains in very good demand.

Unidentified Analyst: So let's talk about remarketing income from railcars in North America. I think that's been good over the last couple of years. Anything unique about the current environment, the secondary environment that makes you feel good about this?

Robert Lyons: Yeah, I would say I'm very encouraged by the activity in the secondary market, especially in, if you look over the course of the last few years as interest rates started to march up. I don't know when exactly, but I'm sure at some point in an earnings conference call, we fired a bit of a warning shot saying, we don't know as interest rates start to move up whether that's going to negatively impact activity in the secondary market. So that rate move has largely happened, and we've seen really no impact in the secondary market. Demand remains high. Both the breadth and depth of buyers is robust.

And the assets we put into the market are attractive. They're generally with very good customers, good assets, long-term leases, and we find quite a few ready homes for those assets. So that's been encouraging. Even the first quarter of this year, despite kind of macro volatility, uncertainty, tariffs on, tariffs off, et cetera, very good level of activity in the secondary market in the first quarter. And we're a participant as well. So we're not only a seller, but we're always looking to buy. And it's competitive. We certainly don't win everything we bid on.

Unidentified Analyst: So yeah, so talk a little bit about that. What's attractive to you guys participating in that market?

Robert Lyons: It's the opportunity to really be selective. So most sellers like ourselves, if you put a package in the marketplace for 700 or 800 cars, it's usually sliced up into a number of smaller different riders by car type, by customer or what have you. We like that flexibility to be able to look at an entire package and say, okay, out of the 700 or 800 cars in this package, we'll bid on 200 that we really like for various reasons, and the rest we'll kind of leave for somebody else in the marketplace to look at. And again, even though it's 200 or so we'll bid on, it's competitive. There are others out there looking to add to their portfolios, but really that optionality, that's been quite nice. We've added a lot in the secondary market over the course of the last few years, and we've seen really good opportunities.

Unidentified Analyst: Do you think that continues?

Robert Lyons: I think it will. I think it will. There's -- that secondary market is really, it has been quite healthy, resilient. And as I said, despite kind of week-to-week or month-to-month headlines and volatility in the equity markets or debt markets, the buyers have been there.

Unidentified Analyst: Any car types in particular in the secondary market that jump out in markets?

Robert Lyons: Nothing in particular. One of the benefits GATX has is this 160 different types of cars in the portfolio spread across 800-plus customers. We can offer cars in lots of different lots, and that's what we do. Every quarter, every six months, we put a package in the secondary market. In all likelihood, we're not going to sell them all. There's going to be some pockets there where we just think the market didn't value it the way we would as a whole. We'll keep it and we'll move on. But demand has been pretty good. Interest has been pretty good. As I said, we see it on both the buy and sell side across asset types.

Unidentified Analyst: And you mentioned competition in that space. So anybody unique jump out at you, or is it sort of the usual suspects?

Robert Lyons: I would say the usual suspects. We haven't seen any new sizable financial investors come

into the market, any new names. We've definitely seen some portfolio acquisitions, more sizable ones over the course of the last couple years. But in the kind of as-you-go secondary market activity, not a lot of new players, which is fine. Typical package will go out. You're going to have a buyer list of 25 or 30 different institutions. And what I'm encouraged about is when we go into that market to sell, we'll see most of those 25 or 30 active. They're obviously not all going to win their bids, but they're all in there.

Unidentified Analyst: Yeah, you're getting bids from everybody.

Robert Lyons: Yeah.

Unidentified Analyst: Okay. When you think about secondary as an avenue for growth for you, what do you think that looks like over the next 2 or 3 or 4 years compared to going with new cars?

Robert Lyons: Well, we're always going to have a new car need because we scrap even today GATX's fleet standalone, not to mention with the addition of the Wells Fargo portfolio. But we scrap about 2,500 to 3,000 cars in a given year. We're going to need to refresh that and replace those for our customers. So we're always going to be in the new car market at some level. And the secondary market is a real nice supplement to that and has been. We've invested several hundred million in the last few years in the secondary market and would like to continue to do that.

Now on the sell side, obviously, as I mentioned before, with the addition of the Wells Fargo portfolio, it just adds a whole other pool of assets from which we can be very selective and potentially go into the market from time to time and see what the market's appetite is for those.

Unidentified Analyst: So let's talk about the international business. I know you touched on this a little bit earlier, Europe, India specifically. What's sort of the outlook for '25? Maybe we can even sneak a peek into a little bit longer than that. But what do you think about sort of Europe and India in the next year?

Robert Lyons: Well, we'll take Europe first. I think I would like to start by peeking into 2026 because 2025, the economic environment's pretty challenging in Europe right now, particularly in Germany, which is the big driver for chemical petroleum, kind of the tank car moves in Europe. So it's definitely more challenging in Europe these days. They're going to continue to add to their fleet. Just last week, I think, we were at the Munich Transportation Fair and celebrated GATX Rail Europe's 30,000th wagon put into service. So I think across sectors, also on the freight car side which has been underweight for GATX Rail Europe, we're seeing more opportunities. And that'll be a good avenue for growth for us.

India's its own unique country with its own dynamics. Almost regardless of economic activity in India, the need for increased moves by rail transportation, infrastructure development, it will continue. I've had the benefit of going to India. I go probably once a year to see our team there. And each trip, you can literally see development under everywhere you go, whether it's in Delhi or Mumbai or Calcutta. It's impressive.

Unidentified Analyst: How do you see the balance of those, of the three core businesses, North America, Europe and India, kind of as you look out over the next couple of years, just given that sort of very robust growth?

Robert Lyons: Well, from a unit growth standpoint, India has the biggest upside. They have the benefit of starting off a smaller base. They'll be able to continue, I believe, to continue to grow

that fleet without any significant issues. Europe and North America, it will be a bit more opportunistic. But our focus over the course, particularly here in North America, really over the course of the next year-plus will be integrating. Once we clear the regulatory hurdles, requirements, we'll be integrating that portfolio.

Unidentified Analyst: Yeah. And I guess just sort of proportionally, what do you think India can be of the business in a few years from now?

Robert Lyons: Well, I don't want to put too much pressure on them, but there are 10,000, 10,500 wagons today. Over a 5-year period, you could easily add probably another close to 800, 1,000 wagons a year. So they are primed for growth. Very good team. We will continue to look for opportunities to kind of expand the service offering we have in India. That's the one market right now where we do not do maintenance. All the maintenance in India is done by the Indian Railway. And it's certainly an area we think we can bring a lot of expertise if we could do that at some point in the future.

Unidentified Analyst: What needs to happen to unlock that opportunity for you?

Robert Lyons: Well, right now, everything's done by the Indian Railway, so they would have to get comfortable that third parties can do service and do maintenance service in India, and hopefully see the benefit of relieving themselves of some of that burden and requirement. And we have a very good dialogue with the IR. But things take time. Longer in India than they do elsewhere.

Unidentified Analyst: Okay. And then I guess we talked a little bit about tariffs and thinking about it from a U.S. angle. When you think about your international businesses, is there any impact that we need to consider?

Robert Lyons: No, the only thing internationally, as I mentioned already, from a kind of on the radar standpoint is the economic environment in Europe, which is fairly unpredictable at this point and pretty tepid growth. It's hard to slice that up between what's tariff-driven, what's kind of core economic concerns. But that's the one market where this year's growth will be a little bit probably light of where it's been the last couple.

Unidentified Analyst: Okay. I wanted to touch base on the engine leasing business and the JV with Rolls-Royce. Kind of wanted to get a sense of what the outlook like that is for this year. How do you think about -- performance has been good, so I guess how do you think about the opportunity for 2025?

Robert Lyons: The performance has been very strong. If there's any business that's been tested, it's that one. Nobody had in their models, us or anybody else, that a pandemic would occur and travel would basically go to zero for some extended period of time. And that was a challenging environment for Rolls-Royce and definitely for our partnership, RRPF. But they came through very strong and customer collections remained quite high. Utilization of the engines remained quite high.

If you look out over the course of the next 10 years, just from a replacement standpoint, the number of aircraft that need to be delivered is substantial. All of those will need -- they all need engines, they all need spares, and we're in the spares business. Mathematically, it's fairly predictable in terms of the number in engines that need to back up those that are on wing. And so we think the growth prospects in engine leasing are quite strong.

Now from our standpoint, we invest there two ways. We invest directly through GATX

engine leasing. And we also have the joint venture that's investing. This year, they'll probably be north of $1 billion that they'll invest directly within the joint venture. The last few years, GATX has done roughly $250 million of engines directly. We've indicated we expect to be somewhere in that range, depending on Rolls' demand -- or Rolls' production schedule. It may be a little light of that, but we're expecting a good number this year.

Beyond that, the direct engines are a little harder to predict because it's more -- Rolls is in a much stronger financial position today than it was 4 or 5 years ago. And they have a lot of alternatives for how they sell and finance those engines. We're one of them and a good one. But it could be more challenging further down the road to see some of those direct investments. But our portfolio is in great shape. And through the JV, roughly $800 million to $1 billion a year of investment volume is a lot, and it's a really, really good opportunity for GATX.

Unidentified Analyst: In terms of the wholly owned side of the engine leasing, so I guess, how do you think about that developing to get 40, or close to 40 wholly owned engine in the portfolio today? So where does that go to?

Robert Lyons: Well, I think we'll see after this year kind of what comes forth, what's in the pipeline from Rolls. It'll probably primarily be back half of the year loaded. And that's a bit more of a year-by-year situation, so it's a little bit more difficult to predict what the numbers will be 2026 or beyond. I do know that within the joint venture, $800 million to $1 billion a year is very achievable. We dipped down in the pandemic or post-pandemic era to $150 million to $250 million of investment volume there. Kept the team very focused on the existing asset base. But we've come through that extremely -- they did an outstanding job running the business and come through very strong and are back in more of a proactive investment mode.

Unidentified Analyst: And if there's any questions from the audience, we're almost out of time, but I do have one more, and you guys can think about that for a second. This has been a good market for you guys to deploy capital into. So as you think about the next year or two or three years, sort of what's the capital allocation strategy? Which parts of the business gets the most dollars?

Robert Lyons: The one that generates the highest return.

Unidentified Analyst: That's a good answer.

Robert Lyons: Doesn't matter whether it's India, Europe, North America, or tank container leasing business or engines. Our goal -- our job is to deploy capital in the highest risk-adjusted return opportunities we can for the shareholders. Our framework won't change. We believe our shareholders want us to reinvest in the business. So we're going to use our cash flow to do just that as we've done for many years now. Redeploy capital into the business to the extent the opportunities are there and the returns are there.

Keep the balance sheet in great shape. That's our second priority. Our investment-grade credit rating is very important to us. We want to keep the balance sheet pristine and in a position where we can be really opportunistic like we have been with the Wells portfolio. And then the third priority is to the extent there's excess capital, we will return it to shareholders. And we've done that through dividends, which I think now we've paid uninterrupted since 1919, and periodic share repurchase. So those are the three pillars.

Unidentified Analyst: So crystal ball, which is the asset type or opportunity that's got the best return?

Obviously, you made a big deal here, yeah.

Robert Lyons: Well, we just announced a $4.5 billion deployment here in North America, which we think will generate a very attractive return. But as my message to our other business unit leaders in Europe and India, Trifleet, Rolls-Royce has been -- we've spent a lot of time working on that joint venture structure and that option structure to give us maximum flexibility to invest in every market. So we expect to invest in every market.

Unidentified Analyst: Good answer. Well, listen, Robert, thanks so much for joining us. Really appreciate it.

Robert Lyons: All right. Thank you.