



2022 First Quarter Conference Call

April 20, 2022

Operator:

Good day, ladies and gentlemen, and welcome to the GATX 2022 First-Quarter Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Shari Hellerman, Director of Investor Relations. Please go ahead.

Shari Hellerman:

Thank you, Keith. Good morning, everyone, and thank you for joining GATX's 2022 First-Quarter Earnings Call. I'm joined today by Brian Kenney, President and CEO; Tom Ellman, Executive Vice President and CFO; and Bob Lyons, Executive Vice President and President of Rail North America.

We'll begin our call this morning with an overview of our first-quarter results, followed by prepared remarks by Brian and Bob. Afterwards, we'll open the call up for questions. Before we begin, please note that 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 2021 and in our other filings with the SEC. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Today, GATX reported 2022 first-quarter net income of \$75.8 million or \$2.10 per diluted share. This compares to 2021 first-quarter net income of \$36.5 million or \$1.02 per diluted share. 2022 first-quarter results include a net negative impact of \$11.5 million or \$0.32 per diluted share, which represents GATX's share of a net impairment charge at the Rolls-Royce & Partners Finance affiliates associated with aircraft spare engines in Russia. Also included in the quarter was a net positive impact of \$3 million or \$0.08 per diluted share, related to an enacted tax rate reduction in Austria. These items are detailed on Page 10 of our earnings release.

Our first-quarter results reflect strong demand for railcars across our global rail businesses.

At Rail North America, fleet utilization remained high at 99.3%, and the renewal success rate was 80%. We have now seen seven consecutive quarters of sequential increases in absolute lease rates. Furthermore, the pace of lease rate increases accelerated this quarter. The renewal rate change of GATX's Lease Price Index was positive 9.3%, with an average renewal term of 30 months.

We continue to successfully place new railcars from our committed supply agreements with a diverse customer base. We have placed nearly 3,600 railcars from our 2018 Trinity Supply Agreement. Additionally, we've placed virtually all 7,650 railcars from our 2018 Greenbrier Supply Agreement. Our earliest available scheduled delivery under our Trinity Supply Agreement is essentially in the first quarter of 2023. The secondary market for railcars remains very strong. Rail North America's remarketing income was approximately \$66.4 million during the quarter. This represents the vast majority of our expected remarketing activity for 2022.

Rail International performed well with high fleet utilization of 99% or above and continues to experience increases in renewal lease rates versus the expiring rate.

Turning to Portfolio Management, first-quarter performance was in line with expectations. Our Rolls-Royce and Partners Finance affiliates continue to operate in a very challenging and uncertain environment for global passenger air travel.

Finally, GATX's total investment volume in the first quarter was over \$370 million with a focus on our railcar assets globally.

Before I turn the microphone over to Brian, I'd like to remind everyone that our Annual Shareholders' Meeting is scheduled on Friday, April 22, at 9:00 a.m. Central Time and will be held in a virtual-only meeting format.

With that, I would now like to turn the call over to Brian.

Brian Kenney:

Thanks, Shari. As a lot of you know, last December, I announced my retirement as the CEO of GATX after 17 years, and that's effective at our 2022 Annual Shareholders' Meeting. And as Shari said, that's in two days. So, that makes this my 91st and last earnings call. I do want to say it's been interesting and challenging. And honestly, it's been fun to work with all of GATX's shareholders and analysts over the years. And I do hope you feel as though I was honest and transparent in my communications with you.

It's been even more of a pleasure to work with the extraordinary employees of GATX over the last 26 years. They are, without a doubt, the best team in the industry. And I want to say they're led by an equally strong senior leadership team in Tom Ellman, Deb Golden, Kim Nero, Gokce Tezel and Paul Titterton and at the head of that team, the new CEO of GATX, Bob Lyons. Bob and I have worked together at GATX for over 25 years, and I can tell you he's more than ready for this job.

So, without further delay, let me hand it over to the incoming CEO. Bob?

Bob Lyons:

Thank you, Brian. Good morning, everyone. And I'd be remiss if I didn't at least take a moment and thank Brian for his leadership during the past 17 years and for his service to GATX for 25-plus years. As Brian noted, this is his 91st and final earnings conference call at GATX. And during that time, he set a very high bar for honesty and direct answers, and I think many of you know that, and appreciate it.

That carried over into the way he led this Company with a clear and direct strategic vision, all centered around disciplined capital deployment. There are many of us here at GATX who took those lessons to heart. We're eager to carry them forward. Thank you, Brian.

During today's Q&A, we'll likely get a number of questions regarding the impact that the war in Ukraine is having on our various businesses. And rather than try to address each one of those as they came, I thought it'd be helpful to

give you a summary upfront. So, bear with me while I do that.

To start, our thoughts and prayers go out to all of those, the millions of people who have been impacted by the war. As we consider the impact on our business, our thought process is pretty simple. This is first and foremost a terrible humanitarian crisis. To try and spin a positive out of this is not the way we think at GATX. The impact on each of our businesses vary, but our approach is the same. We stand by our commitments. We'll work constructively with all of our constituents. We put our employee safety and well-being first and we'll navigate this turmoil the same way we have a number of crises during our 120-plus years in operation.

With a large business in Europe, we have employees who are directly affected by the crisis. Many of you know, we are the leading railcar lessor in Poland, have a large railcar facility in Ostróda and a number of employees based in Warsaw. Many of those employees are volunteering to assist with the influx of those displaced from Ukraine and in some cases, have taken in refugee families. GATX is providing financial assistance to those who are doing so, and we'll continue to encourage our employees to assist where they can. Personally, I'm incredibly proud of our employees and their commitment to help those who are in need.

In Rail North America, turning to the businesses, rising steel costs are having an impact on new car costs and scrap prices. This started well before the war, but certainly with the war and all of its turmoil, steel prices have remained elevated. Logically, this should result in higher lease rates on the installed base of railcars and in certain cases, it definitely has. However, the ultimate driver of lease rates is the balance or imbalance between supply and demand of railcars. This equation continues to improve, but it does vary across car type. Elevated new car cost is making new investments in the spot market more challenging. So, generating investment volume at attractive returns will be a bit more challenging. Also, in some cases, customers are not willing to add cars at significantly higher lease rates. So, they're holding off on new car orders that result in a reduction in new spot opportunities.

That said, we are seeing some opportunities, and we're going to remain disciplined, focused on adding assets at attractive prices where we can generate an attractive, risk-adjusted return for our shareholders. We have seen some delays in lower inventories of certain railcar components, particularly those that are stainless steel as a result of the dramatic increase in nickel prices. For the most part, we've built safety stock and we're managing through delays with minimal disruption. So, from a segment profit standpoint, the impacts of the crisis are not having any material impact on our North American results and are not expected to this year.

Internationally, rising cost and supply chain issues are having a more acute impact on the businesses. Again, from a segment profit standpoint, that's not the case. But operationally, there are some topics to discuss.

At GATX Rail Europe, we're working with customers and suppliers to constructively address the situation and supply chain issues. At this time, we do not anticipate any material delay in our expected new car delivery schedule. Lease rates continue to move higher in Europe, and we'll ensure that we're receiving a fair market rate on those renewals, but without price gouging or attempting to capitalize on any customers' particular challenging situation.

In India, the same situation exists with regards to steel prices, new car costs and components. Demand for new wagons in India has been and continues to be very strong. And the team there is working closely with railcar builders and customers to ensure that we lock in cost delivery and lease rates on a number of new wagon transactions. We'll continue to diversify and grow the fleet. And while the supply chain issues are a challenge, I'm confident we'll see very solid investment volume in India in 2022.

We have a small railcar leasing business directly in Russia, 380 cars, three customers, three employees and approximately \$20 million of total investment. Our main concern has been, and will always be, the well-being of our employees. We're doing all we can to ensure that we're complying with sanctions and counter sanctions to the fullest extent possible and that

our employees can run the business accordingly. We made this investment years ago for option value in the event that the investment environment in Russia improved. Clearly, that's not happening. We'll consider the appropriate course of action from here. But for now, the business is operating and customers are paying on their leases.

Lastly, at RRPF, the war in Ukraine on the heels of Omicron has continued to put significant pressure on international air travel. As noted in the press release, RRPF wrote down the value of three engines we directly had on lease in Russia because recovery -- the likelihood of recovery is very low. The longer-term impacts on demand for international air travel and therefore, demand for engines at RRPF is unknown at this time. What we do know is that air travel has always recovered from global shocks. In fact, it was on a more positive trajectory before the dual challenges of Omicron and the war. We're confident that longer term, air travel will return to a positive trend line.

With that, let's go to Q&A.

QUESTION AND ANSWER

Operator:

(Operator Instructions) We'll take our first question from Justin Long with Stephens. Please go ahead.

Justin Long:

Thanks, and good morning. Brian, congrats again. It's been great working with you.

Brian Kenney:

Thank you.

Justin Long:

Last quarter, you provided some specific line-item guidance by segment that support your 2022 outlook. I know the EPS range didn't change, but were there any of those underlying assumptions that moved materially? Or would you say that trends so far this year are tracking

relatively in-line across all the different businesses?

Tom Ellman:

Justin, this is Tom. For the first quarter, everything was very much in-line with our expectations for each of the segments. We expected to see a continuing strengthening in the Rail North America market and indeed, we've seen that. Similarly, in both Europe and India, those markets have been strong, and they've continued to be so. We continue to face a lot of uncertainty with the Rolls-Royce JV as global air travel, which is so dependent on the global recovery from the pandemic, continues. And then you have the additional challenges of predicting how the Russia-Ukraine conflict will impact air travel. However, for the first quarter, that also was in-line with our expectations. So, as you go segment by segment, there's really nothing that changed materially for our full-year expectations, which is why we've made no change to full-year guidance.

Justin Long:

Okay, that's helpful to clarify. And as we think about the elevated level of North American remarketing in the first quarter and the implied drop-off in remarketing over the rest of the year -- does that in any way reflect an outlook for softer demand in the secondary market? Or is this purely a function of timing around what you had available to sell in the first quarter and the level of demand you saw?

Bob Lyons:

Justin, it's Bob. The secondary market remains incredibly strong, and we expect to continue to see that through the balance of the year. As we indicated coming into the year, we thought the majority of the remarketing income would occur in the first half of the year, solely due to the schedule of what we had available in the market, and that was reflected in the first quarter. So even on the smaller sales and packages we have in the marketplace, we're continuing to see an ample number of buyers, a very good demand for the underlying assets. So that will continue, assuming there's no capital

market disruption, our expectation is that will continue through the balance of the year.

Justin Long:

Okay. And I guess last quick one. You referenced a sequential improvement in absolute lease rates and acceleration there. Is there a way you could quantify that?

Bob Lyons:

Sure. I think you recall last quarter, Justin, in Q4 versus Q3 2021, on a total basis, we were in the high single-digit range in terms of sequential lease rate increase. This quarter, it's in the mid-to high-teens with the freight car side of the business, seeing the highest demand. So, a little bit higher on freight car -- it's a little bit lower than that on tank. But in the mid- to high-teens Q4 to Q1 of 2022. So very, very good upward trend.

Justin Long:

Great to hear. I'll leave it at that. I appreciate the time.

Operator:

We'll take our next question from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors:

Thanks for taking my questions. Just to follow-up on that last piece. Can you talk about where you are versus the long-term trend line on some of your major car types? Just if that is inflecting in any way in the way you've spoken about in the past, that would be helpful. Thanks.

Bob Lyons:

Sure. Well, it definitely varies across car types. Even though we've seen the biggest uptick in rate in freight over the course of the last few quarters, I would say, in general, we're still seeing some of those rates below the long term, what we would determine a view to be the long-term equilibrium rate. Tanks there or above in many cases, particularly for more general service tank cars. The power of the fleet we

have is that with over 160 different car types, we can really target the specific categories where we're seeing the best demand and the best dynamics and we're -- we'll continue to do that.

So there are investment opportunities out there for sure. We had a very significant investment volume in the first quarter. And -- but it will be very targeted.

Bascome Majors:

Thanks for that. And shifting back to Europe. If I recall, about half of that fleet is involved in mineral oil, which is variety of refined products in crude and maybe 20% in LPG. When you talk to your customers, I mean, given the changing potential energy landscape in Europe, where does that create long-term opportunities and risks for the capital you have deployed there?

Brian Kenney:

Yes, it's Brian. So I can take that. It's -- there's the whole shift we've made over the last few years to invest more on the freight side, and that's a lot to do with the green movement in Europe and them trying to be carbon neutral by 2050 and favoring those car types. But there are continuing opportunities as you point out, in mineral oil and LPG and even in the petrochemical side, where a big part of our fleet is and we're seeing tremendous demand. We've seen tremendous demand for the last two years on that fleet, and there's a number of reasons for that, which we've talked about over the last two years.

And as far as additional demand from the war in Ukraine, it's probably having an impact on demand. It's hard to quantify how much since the market has been so strong anyway over the last two years. And again, even if you could identify that demand, as Bob alluded to in his opening, you'd be careful how you respond to it. So you help your best customers, you avoid short-term opportunities and trying to capitalize on a tragic situation. So really, I'd say what we're trying to do right now is to assess how trade flows may be changing, and that assessment is happening in real time and how sustainable those changes may be -- the flows

in Europe. And remember, these are 40-year assets, and you have to think very long term where you put them. So I would say with the changes you're seeing in Europe right now, we're just assessing where this might be going and how sustainable it is.

Bascome Majors:

Thank you for that sort of early comment on the complex situation. Just last one. On the buyback, I mean you've talked about being selective on capital deployment into real assets. Your own stock is also at the higher end of its historic valuation, like many of the assets that you invest in. Can you talk about how to balance investment in equipment versus investment in your own stock versus maybe just being opportunistic and saving dry powder for an environment that may be more fruitful for long-term investment in either? Thanks.

Tom Ellman:

Great. Bascome, just to put some numbers around some of it. We still have \$128 million remaining on our authorization from the Board as of the end of the quarter. Our capital allocation framework calls for us to prioritize attractive investment opportunities, while ensuring a solid investment-grade rating and maintaining access to attractively-priced capital. And then we return any excess capital to the shareholders. So, we've done that consistently via the dividend and more recently, via stock buyback. We did complete about \$9 million of stock repurchase during the quarter. More significant stock repurchase always remains an option if it becomes more challenging to identify investment opportunities that provide an appropriate risk-adjusted return. And we'll continue to have those discussions with our Board of Directors as we do each quarter.

Bascome Majors:

Thank you.

Operator:

We'll take our next question from Matt Elkott with Cowen. Please go ahead.

Matt Elkott:

Good morning. Thank you. Brian, congratulations again on the accomplishments you've had at GATX and upcoming retirement. And Bob, congratulations on the new role. Looking forward to working with you in the new capacity. I was hoping you guys would talk about how you perfect the balance between taking advantage of a very strong secondary market without risking having your core lease revenues being challenged in the long term, especially as – I guess if you would have to maintain a similar lease revenue level you would have to tap into the secondary market or newly manufactured railcars, which are also very elevated. So, just wondering how you make those decisions and if we could expect the activity to subside significantly in the back half of the year based on your guidance?

Bob Lyons:

Sure, Matt, it's Bob. To begin with, we always look at what we're potentially going to sell in any given year from the standpoint of the overall portfolio and portfolio optimization. So, there are various reasons we target particular cars for sale. They're all quality assets usually on lease to very quality customers. But we look at the value of holding those versus what the value may be in the secondary market and how they fit in the construct of GATX's overall portfolio.

So, there's no particular target by quarter or anything in that regard. We're looking at what's the best value for the GATX shareholder long term, whether it's to hold those assets, continue to re-lease them -- own and re-lease them over time or is the market willing to pay a price that exceeds what we view as our hold value. So, it's -- there's a mathematical element to it, which probably won't surprise you given how you know how we think here in terms of return and how we look at the value of assets. And then there's a commercial aspect our sales force is involved in and also looking at the portfolio and making a determination on what the best candidates for sale may be. So that process won't change based on what's going on in the secondary market.

Matt Elkott:

Got it. And I know you kept your EPS guidance unchanged, but given how strong the secondary market has been and the big transaction in the first quarter, do you think there's upside to your original guidance for remarketing income?

Bob Lyons:

Well, I've been doing this for a long time, as Brian and Tom have as well. And I think if I look back over the course of the last 20 years, there's probably maybe one or two rare instances where GATX raised guidance in the first quarter. We typically like to get a much better sense for the fundamentals and the lay of the land as we go through the first half of the year. So, we'll do that assessment here as we go through the second quarter. But I'm very encouraged by the trends we've seen in the first quarter and the performance we've posted to date.

Matt Elkott:

Got it, that's very helpful. And then I had a quick question on average terms. Can you talk a little bit more about why they've been stubbornly low despite the -- I mean, you had -- you doubled the percentage improvement in spot lease rates on a quarterly basis in the quarter, but average terms have not really risen that much? I mean, I know we're nowhere near the Crude-by-Rail era, but average terms close to above 60 months during that phase.

Bob Lyons:

Yes. And I wouldn't read too much into the average term right now at this point, Matt. That number can get skewed by a few renewals. What I will tell you is we are in very targeted instances stretching term. We are now at a point in time where in certain car types, the market lease rates are at a level that we think it makes sense to lock in long term, and we've been successful in doing that. But that one number that's provided can get a little bit skewed by a small number of transactions.

Matt Elkott:

Okay. So, there are opportunities to -- we should expect opportunities to increase the term of leases to take advantage of the current improving lease rate environment?

Bob Lyons:

Yes. And we do that analysis literally on a weekly basis. So, we're making the termination in various car types of where we think we should be on the term spectrum. And yes, over the course of the last three, really, six months, we've seen more and more instances where it makes sense to go out longer and we've been successful in doing that.

Matt Elkott:

Got it. And just one last question, Bob. I was hoping you guys would talk a bit on -- remind us of your exposure to the different types of rail traffic because rail traffic as a whole is down still. But coal, chemicals and things like stone, sand and gravel are very strong. While most other groups are, including intermodal, are also stubbornly weak so far. So, what does the current rail traffic outlook mean for you from the perspective of your fleet?

Tom Ellman:

Yes, Matt, the real key, as you know, from watching this so long, is that intersection of that supply and demand and if you look at the idle cars in storage, it continues to come down. So, at a macro level, that's why you're seeing the improvement that Bob's been talking about in terms of lease rates. If you go commodity-by-commodity, you really are going to see the same thing for most commodities. The exception continues to be some of the energy markets where there's still some excess supply with our competitors. As you look at our utilization, we're fully utilized. But that's why kind of commodity-by-commodity, you have to look at that intersection of the two rather than just the loadings in isolation. And if you look historically, you'll see that what really drives the cycle is that supply side much more than the demand side.

Matt Elkott:

Yes. That makes sense. And much of the rail weakness is intermodal, which is almost half the rail traffic. And I believe you guys -- your intermodal exposure is fairly limited. Is that correct?

Shari Hellerman:

Yes, Matt. We have a little over 3,000 cars.

Matt Elkott:

Got it. Thanks, Shari. Thanks, Tom. Thanks, Bob. Thanks, Brian. I appreciate it.

Bob Lyons:

Thank you.

Operator:

We'll take our next question from Allison Poliniak with Wells Fargo. Please go ahead.

Allison Poliniak:

Hey, Guys. Good morning. Congrats, Brian as well in your next phase. I just want to take that last question a little further. I know one thing; I think you guys had just mentioned supply is certainly being important. But rail velocity obviously being challenged as well. Like how -- what is your view on that at this point? Could we see a little volatility as that velocity hopefully improves over time with some of that imbalance kind of shifting again? Just any thoughts there?

Bob Lyons:

Sure, Allison. And I think for sure, you could see some of that volatility, definitely in times of low velocity like this. Historically, you might have thought people -- customers might push to solve that with more railcars. But we're seeing less of that these days. And actually, given the situation in the marketplace, you've seen some customers looking for some alternatives off the rail, which could come back and would likely come back, if there was more fluidity in the market.

Allison Poliniak:

Great, that's helpful. And then I just want to touch on maintenance. I think, Bob, you had mentioned you felt okay with the component side of it. Was there any -- we've been hearing a lot within the manufacturing and so forth about Omicron disruptions in terms of operations? Just any volatility there that maybe would smooth out for you for the year, or we have to catch up on in terms of maintenance on that side?

Bob Lyons:

Well, I think from a first-quarter perspective, our net maintenance numbers came in right in line with what we had anticipated, maybe even a little bit below. But yes, we have seen even in our own network. We did see some -- a few more challenges with regards to COVID, work outages during the first quarter, nothing that disrupted overall operations. But we're certainly hearing that, whether it's from the Class I railroads or some of the third-party maintenance providers. So, it's an issue for sure, but one we've certainly been able to navigate. And the fact that with our tank and specialty freight cars, we do the vast majority of over 90% of that work in-house these days. We have much better control over that and are not as dependent on any other third party.

Allison Poliniak:

Great. Thanks, I'll pass it on.

Operator:

We'll take our next question from Marla Backer with Sidoti. Please go ahead.

Marla Backer:

Thank you. So, given the current situation, can you remind us of how you see your fleet competitively positioned after spending \$1 billion to expand it over the past -- per annum over the past couple of years. How do you see your fleet in terms of size, average age and diversification relative to what's available right now?

Bob Lyons:

Well, I continue -- have always felt and continue to believe we have the best fleet in North America. It's one that's highly diversified, not skewed by any one particular car type or commodity; spread quite heavily across a very high-quality customer base on long-term lease. And that fleet has been built over decades. It's not just one where investment over the course of the last two or three years, dramatically alters how we think about the fleet or the structure of the fleet. This is a fleet you can't replicate. You can't flip the switch and get the diversification that we have in our fleet today.

So, from an average age standpoint, you're not going to see that change dramatically. We -- every year, we scrap some cars out, we're adding new cars to the fleet. And given the scale, it's hard to -- the scale of our fleet, it's hard to move that number too dramatically. But there's no pockets in this market that I look at and feel like we have gaps nor are we overweighted. So, I think our fleet is in outstanding position.

Marla Backer:

Okay, thank you. And then in your prepared remarks, when you were commenting on the geopolitical situation, you specifically mentioned some obvious markets -- Poland, for instance. Are you seeing any kind of change as this war persists, are you seeing any kind of like widening radius reducing changing patterns as a result of what's going on?

Brian Kenney:

Yes, I can take that. It's Brian. Yes, we are, but we just don't know how permanent and sustainable they are. So, for instance, and some of this started before the war with embargoes on gas imports from Russia, especially through Belarus and other things. So, we're seeing changing flows, but we don't know how long that will last. We're just -- as I said, we're in real-time assessment as we speak right now.

I will say overall demand is very strong in Europe for all our commodity and all our cars.

Marla Backer:

OK, thanks very much.

Operator:

We'll take our next question from Justin Bergner with Gabelli Funds. Please go ahead.

Justin Bergner:

Good morning, and congratulations, Brian on great career at GATX and welcome to the CEO role, Bob.

Bob Lyons:

Thank you.

Justin Bergner:

My first question just relates to the remarketing gains on sale, what would have to happen at this point for you to sell meaningfully more cars than you envisioned when you sort of delivered your annual guidance three months ago?

Bob Lyons:

Well, I think that we're always out testing the market. So, if we saw any developments among the buyer universe there where the level of aggressive purchasing ratcheted up materially from where it's at today. We went into the year expecting it to have a pretty good environment to sell, it has been. But if it ratcheted up dramatically from here, we would reassess if there were other cars in our portfolio that made sense to sell.

Justin Bergner:

Okay. Great, that's helpful. Secondly, you were commenting in the prepared remarks about the spot market dynamics. Maybe if you could just provide a little bit more color there. Were you speaking mainly about the inability to get additional cars to provide additional leases on sort of a spot basis or was it another set of drivers you were trying to speak to?

Bob Lyons:

Sure. Yes. Thank you, Justin. It's not so much the supply side. We can get access to cars for sure. It's the cost of the car and the related lease rate that we would require to buy the car at today's price and put it out on lease. And so, our customers are very sophisticated. They've been in their businesses for a long time. They run their fleets quite efficiently. And so, they're also looking at -- okay, if the car price is up 30% or 40% versus it was a year ago, I have to pay that relevant lease rate for GATX to make that investment and make it economical. And maybe I'll hold off. And that's why we've seen such high demand for the installed base of railcars -- one of the reasons. The alternative to the installed base is buying new. Those costs are pretty high right now. So just the volume -- there are spot market opportunities, but the volume of those has dialed back a little bit.

Justin Bergner:

Okay, excellent. And then lastly, outside of railcars, are you seeing any new additional investment opportunities, whether it's direct engines, or for Trifleet or other areas? Or is it pretty expensive still across most asset classes?

Bob Lyons:

Yes. Well, I would say in Trifleet's case, they've seen similar trends with regards to new asset prices. So, costs for tank containers are up materially from where they were a year or 18 months ago. But we're -- we had a good quarter there from the standpoint of investment. We're continuing to see very good demand there. So very encouraged by the early returns from our ownership of that business. But again, we have to remain very, very focused on making sure we're getting an attractive return, and we're not taking undue residual risk with the heightened prices.

And as far as the aircraft engine side, yeah, I would say the we did the direct engines at the beginning of last year. We continue to look for some opportunities there as well, very much like the asset class long term but also have to be mindful of how much of that volume we do in

this – the current environment. And so, we are absolutely continuing to look.

Justin Bergner:

Great. Thank you and best of luck in the CEO role.

Operator:

(Operator Instructions) We'll take our next question from Justin Long with Stephens. Please go ahead.

Justin Long:

Thanks for taking the follow-up. At the beginning of the year, you talked about the LPI being in a range of 5% to 15%. But just reflecting back on the comment earlier about the acceleration you're seeing in lease rates to start the year -- is that still the right range for the LPI?

Bob Lyons:

Yes. Where we sit right now, Justin, we're still thinking in that plus 5% to plus 15% range. We were right in there in the first quarter. And as Tom mentioned in his comments earlier, a lot of the trends we saw in the first quarter, we fortunately kind of anticipated and already have baked into some of that -- some of our thinking around that guidance. So, we'll update you on that in the second quarter. But as of right now, that's still an appropriate range.

Justin Long:

Okay. And last one from me. Obviously, there's been a lot that's changed from a macro perspective to start the year, including the conflict in Russia and Ukraine. When you just take a step back, could you update us on your thoughts around the multi-year trajectory for the railcar leasing markets in both North America and Europe and how you're thinking about those two cycles longer term?

Bob Lyons:

Sure. Well, let's start in Europe because I think consistent with what we've seen over the course of the last few years, the dynamics there remain quite attractive. We've been able to generate, relative to North America, a consistently more attractive return on investment in European opportunities, than in North America. We think that will continue to be the case. We think as well that the continued push in Europe and the green initiative in terms of moving more product from truck to rail with a very cohesive effort in Europe compared to here in North America will be beneficial to us and to the cycle in Europe longer term. So, I'm very encouraged and very excited about what we'll be able to do with the outstanding platform we already have in place there.

And in North America, it's a little bit more difficult to predict in terms of what the cycle holds. But what's playing out right now -- we -- as you know, it was a very long run of negative LPI, negative lease rate environment over the course of a 6- or 7-year period, it has turned and we're going to be aggressively trying to make sure that we take full advantage of that opportunity that we're working with our customers to stretch term where appropriate.

And as far as the new order cycle and the new spot opportunities, we can analyze those real term -- real time, but the trends are positive.

Justin Long:

OK. Thanks again for the time.

Operator:

At this time, we have no one else in the queue. I would like to turn the conference back to Shari Hellerman for any additional or 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. Thank you.

Operator:

Ladies and gentlemen, this concludes today's conference. We appreciate your participation. You may now disconnect.