



2022 Fourth-Quarter Conference Call

January 24, 2023

Operator:

At this time, I'd like to welcome everyone to the GATX 2022 Fourth-Quarter and Full-Year Earnings Call. (Operator Instructions) Thank you. Shari Hellerman, Head of Investor Relations. You may begin.

Shari Hellerman:

Thank you, Chris. Good morning, everyone, and thank you for joining GATX's Fourth-Quarter and 2022 Year-End Earnings Conference Call. I'm joined today by Bob Lyons, President and CEO; Tom Ellman, Executive Vice President and CFO; and Paul Titterton, Executive Vice President and President of Rail North America.

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.

I'll provide a quick overview of our 2022 fourth-quarter and full-year results. And then I'll turn it over to Bob for additional commentary on 2022 as well as our outlook for 2023. After that, we'll open the call up for questions.

Earlier today, GATX reported 2022 fourth-quarter net income of \$48.4 million or \$1.36 per diluted share. This compares to 2021 fourth-quarter net income of \$61 million or \$1.69 per diluted share. The 2022 fourth-quarter results include a net negative impact from Tax Adjustments and Other Items of \$0.18 per diluted share. The 2021 fourth quarter results include a net positive impact from Tax Adjustments and Other Items of \$0.11 per diluted share. For the full-year 2022, GATX reported net income of \$155.9 million or \$4.35 per diluted share. This compares to net income of \$143.1 million or \$3.98 per diluted share in 2021.

The 2022 and 2021 full-year results include net negative impact from Tax Adjustments and Other Items of \$1.72 per diluted share and \$1.08 per diluted share, respectively. Details related to Tax Adjustments and Other Items can be found on Page 13 of our earnings release. As noted in the release, we currently expect 2023 earnings to be in the range of \$6.50 to \$6.90 per diluted share. With that, I will now turn the call over to Bob.

Bob Lyons:

Thank you, Shari, and thank you all for joining the call today. I'll provide some brief comments on 2022 performance versus the outlook we had coming into the year and then try to provide some additional color on the 2023 guidance we gave in this morning's press release.

Before jumping in, I want to thank our employees for their continued focus and the effort they put forth over the past year. Across GATX in all of our businesses, Rail North America, GATX Rail Europe, GATX Rail India, Trifleet and our engine leasing business in partnership with Rolls-Royce, everyone performed at a very high level. I fully expect we'll carry that momentum into 2023, all with the goal of continuing to generate attractive risk-adjusted returns for our shareholders.

So, let's start by looking back first to 2022, and I'll try to do so briefly. We outperformed our initial expectations for two key reasons. One, Rail North America performed better than planned, and two, Portfolio Management did the same. So, let's look a little bit more specifically at each one of those.

At Rail North America, in the middle of the year, in the middle of 2022, we updated our earnings guidance based on strong secondary market activity. That continued in the back half of the year. So, for the full year, we came in higher than planned. We took full advantage of the opportunity to continue to optimize our fleet. Second, the lease rate environment for existing railcars was very favorable. There were a host of factors that led to this. But one of the key things was -- is that customers were very focused on retaining, holding on to the cars they had in

their existing fleet. Therefore, lease rates increased throughout the year and lease revenue came in stronger than planned. Our commercial team did an excellent job. Third, when demand for existing railcars is as high as it was, you end up with a very high renewal success rate, which we indicated in the press release. And when there's less churn in the fleet, there are fewer service events and that has a positive impact on expected maintenance expense.

So, in summary, at Rail North America versus the expectations we had coming into the year, we ended up with higher remarketing gains, higher revenue and lower net maintenance expense, and that's a very good recipe for a solid year. All of those factors led to Rail North America reporting a substantial increase in segment profit for the year.

Within Portfolio Management, at our engine leasing joint venture, the story is pretty straightforward. We entered the year mired in the pandemic. So, our outlook was fairly muted, potentially even negative. But during the course of the year, international air travel recovered. And while it's still well below pre-pandemic levels, the trend was helpful. And that led to Rolls-Royce & Partners Finance, our joint venture, posting higher operating income and having to deal with fewer customer credit issues than we assumed. Those factors drove higher-than-planned segment profit at Portfolio Management. The performance of those two segments enabled us to overcome lower-than-expected segment profit at Rail International.

While demand was very strong, Rail International had to contend with significant market disruption. In Europe and India, the teams had to deal with the fact that the war in Ukraine led to significant supply chain issues. That led to railcar deliveries in Europe and India being delayed versus our plan. We also had FX rates quite volatile and serving as a headwind. But I'd like to note in the face of these challenges, our teams did an outstanding job manning their business day to day, and we are very positive on our prospects internationally.

My last comment on 2022 is that we invested over \$1.2 billion in our core markets. So, despite

rising asset prices, we continue to find opportunities to put capital to work at attractive returns. That's a testament to our team, to our customers and to the reach we have into the markets in which we participate. Much like railcar renewals, a lot of our investment volume comes in very small lots. That's a hallmark of what we do at GATX and one that enables us to continue to drive returns.

Let's turn to 2023. As Shari noted, we expect EPS to be in the range of \$6.50 to \$6.90 per diluted share. The midpoint of that range implies another year of double-digit EPS growth of the adjusted 2022 results. This would represent another very strong year, especially following the exceptional EPS growth of approximately 20% posted in 2022.

So, let's move on to some of the main drivers for the year ahead. Within Rail North America, we expect another very good year in terms of lease rates. And we're looking at the LPI rate coming in above the 23% we achieved for the full year of 2022. With the full-year impact of last year's rate increases flowing into this year and continued increases in rates, we see lease revenue up \$30 million to \$45 million in the year ahead.

We've reduced net maintenance expense sequentially in each of the last few years. Our team, our Operations team, has done a truly outstanding job. We are fully maximizing the investments and the efficiency improvements we made in our shop network. However, we will feel some inflationary pressure in 2023 and that, along with slightly-higher service events and railroad repairs, leads us to our expectation that net maintenance expense will increase \$5 million to \$10 million in 2023.

As interest rates continue to rise over the course of the last year, it did not have a significant impact in our financial results last year, but it's more meaningful in 2023. We are not economists. We don't play the bond market. We don't try to predict where interest rates will go because we'll certainly be wrong. But they're going to be higher in 2023, and we'll feel more of that impact at Rail North America. So, where we sit right now, we see total interest expense

at Rail North America increasing \$15 million to \$30 million in the year ahead.

We've had very, very strong performance in the secondary market. Demand for our assets remains very high. It's one of the benefits of having a highly-diversified portfolio is that we can bring assets to market that are of interest to people, other investors, regardless of the cycle or interest rates or other macro events. We see that continuing in 2022 and we expect remarketing to come in at the same heightened levels that we saw this past year. So, incorporating these factors, we expect segment profit at North American Rail to increase up to \$15 million over 2022's already strong results.

At Rail International, we anticipate seeing positive contributions to segment profit growth from both GATX Rail Europe and GATX India. In Europe, as I mentioned, demand for wagons is very strong, and we're looking to add 1,300 to our fleet in 2023, a level similar to the past year. Hopefully, that turns out to be a cautious expectation. But it's the correct one to take right now given the supply chain issues that continue in Europe. Importantly, our team in Europe has done an outstanding job of moving lease rates higher. Many of you know, rates are stickier in Europe and moving them up is a challenge, but the team there is delivering.

In India, the overall rail market continues to develop, and we're seeing demand -- strong demand across every wagon type. Quite frankly, the only issue for us in India right now is whether we can get access to the wagons to keep pace with demand. There's a more limited manufacturing base in India, and we're working closely with all of our suppliers to ensure that we have access. We're looking to add over 1,800 wagons in the year ahead, following the addition of roughly 1,000 in 2022.

Based on strong demand internationally, we see segment profit at Rail International increasing \$10 million to \$15 million in 2023. At Portfolio Management, the biggest driver, obviously, is our engine leasing activities, both at Rolls-Royce and Partners Finance and through our direct investments. As we noted in the press release, we added \$150 million worth of engines to our directly owned portfolio in the fourth quarter.

We'll see the impact of that in 2023 along with our -- along with continued contributions from the existing directly owned engines.

Also, at the joint venture level, we expect to see continued, albeit gradual improvement, in air travel and a steady improvement in the health of international airlines. As a result, we anticipate continued growth in operating income. And we see overall segment profit at Portfolio Management increasing \$10 million to \$15 million in 2023.

Let me comment on a couple of consolidated line items. We have held the line very well on SG&A in recent years. But, unfortunately, inflationary pressures everyone is facing will manifest itself in higher SG&A expense at GATX in the year ahead. We plan to fill some long-vacant positions, and we'll see higher wages across the board. So, SG&A is forecast to increase approximately \$10 million in 2023. But on the flip side, on our Other Expense line where we recognize our pension expense, we expect to see a decline of \$10 million. So those two, SG&A and Other Expense, are expected to largely offset.

So, with our tax rate coming in at a similar level to 2022, the items I just mentioned drive our earnings guidance of \$6.50 to \$6.90 per share. And looking at investment volume, we again anticipate being north of \$1 billion in 2023, which will be another excellent year. We're going to have to work really hard to find those opportunities, just like we did this past year. But with the team we have in place and our global footprint and franchise, I'm confident we'll be successful in doing so.

And a final comment on the guidance and the assumptions that I just outlined. This is one of the most unpredictable environments I've ever dealt with at GATX in my 25 years here, and Paul and Tom, who are also here with me today, are also 25-year people at GATX, and they would say the same. The war in Ukraine continues on, interest rates and inflation remain at elevated levels and global supply chain issues, while they may not be as acute as they were over the last 12 months, they're still an issue.

And in North America and Europe, there's economic uncertainty. Will we lapse into a recession? Will we have a soft landing? Will we avoid a recession and so on. I mention this because that adds variability to the assumptions that I've outlined. But to be perfectly clear, we feel very good about the position we're in, regardless of how these macro factors play out. We'll continue to communicate with you clearly on our outlook as the year progresses.

On this call, we usually get a question about dividends, so let me address that now. 2023 marks our 125th year -- our 125th anniversary at GATX, something we are extremely proud of. And we're equally as proud of the fact that we have paid dividends now, consecutively, for 104 years; few companies can match that mark.

We have a regularly scheduled Board meeting this Friday, during which time the Board will consider the dividend policy going forward. But of course, we understand how important the dividend is to our shareholders, and we value our shareholders, all of you, and especially those that have been supportive of GATX for decades. So please look for an announcement on the dividend at the end of the week. And to close, before we go on to questions -- while, I thanked our employees at the onset of the call, I especially want to thank our employees who work on our maintenance network. We have over 1,000 people around the globe in our operations network. And they have worked diligently, efficiently, and most importantly, safely straight through the pandemic. They're essential workers, and they've been in the shops 5 or 6 days a week without fail, and they've been instrumental to our success, and we appreciate all they do. So thank you. And with that, let's go to Q&A.

QUESTION AND ANSWER

Operator:

(Operator Instructions) Our first question is from Justin Long with Stephens. Your line is open.

Justin Long:

Good morning.

Bob Lyons:

Morning.

Justin Long:

I wanted to start with the question on the trends you're seeing in absolute lease rates. It sounds like you saw another increase, sequentially, in the fourth quarter. But I was wondering if you could quantify that. And then on the guidance for the LPI to increase more than it did in 2022. What's the underlying assumption for how lease rates trend sequentially from here? Just on a quarter-to-quarter basis going forward.

Paul Titterton:

So, this is Paul speaking. We're going to bifurcate that. I'll take the first part, and Tom will take the second part of your question. So, with respect to absolute rates, when we think about sequential improvement from the previous quarter, broadly speaking, for both tank and freight cars, we're seeing sequential improvement in the low teens. That's going to vary by car type, but certainly, substantial, sequential improvement in lease rates.

Tom Ellman:

So then for the LPI going forward, we would expect to see a level similar to what we've seen through the course of this year, where quarter-to-quarter, it varies, but a steady drumbeat of increasing lease rates.

Justin Long:

Okay, very helpful. And then I wanted to ask about RRPF as well just because the contribution went up pretty significantly in the fourth quarter, relative to the third quarter. When you look at that \$25 million contribution, is there a way to help us understand how much of that is recurring earnings versus remarketing income? And then any thoughts on remarketing expectations specific to RRPF this year?

Tom Ellman:

Yeah, Justin, so you've been following us a long time and know that that remarketing piece, just like it does in the rail business, can move around quite a bit quarter to quarter. So, first of all, just to give you the numbers -- for the fourth quarter, the operating piece was about \$12 million and the remarketing piece was about \$13 million. Going forward, Bob mentioned in his opening comments that we expect increasing contribution on segment profit. And we will see that on both sides. Again, calling the exact timing and magnitude of the remarketing is something that's pretty challenging.

Justin Long:

Okay. And just lastly, to clarify on that Portfolio Management guidance for 2023. You talked about a \$10 million to \$15 million increase in segment profit. I know you've got the incremental contribution from the engine investments that will be wholly owned. So, does that imply that RRPf is relatively flat year-over-year?

Tom Ellman:

No, it doesn't. So that contribution is -- in Portfolio Management, is in total, and you would expect to see about somewhere in the order of 2/3:1/3 RRPf contribution to GEL contribution.

Justin Long:

Thanks so much for the time.

Operator:

The next question is from Matt Elkott with Cowen. Your line is open.

Matt Elkott:

Good morning, thank you. I had a question on the average term. In the past, when we've had a strong upcycle, I think they've gotten as high as 70 months, although that was all the way back in 3Q '07. Can you just give us some color on why the average terms have not moved up as much as one would think in such a strong environment?

Tom Ellman:

Yeah, Matt, the LPI term for the quarter was about 34 months. And, as you noted, it's been in the low-30s all year. Last quarter, we noted that the LPI term is starting to get pretty disconnected from the actual renewal term on a fleet-wide basis. So last quarter, we gave you that number. We provided that average renewal term for all quarterly renewal activity. And for Q3, that was 49 months.

For the fourth quarter, it's 61 months. And for the full year, it's 52 months. As is the case with all of our statistics, we caution against an over-reliance on any single quarter. So, I would focus much more on that 52-month, year-to-date number, much more so than the quarterly number I provided. As we look forward, we would expect, directionally, that term to increase in 2023.

Matt Elkott:

That's very helpful, Tom. And then, as you guys are expecting another strong year of secondary market activity, any insights on where you see your lease fleet? Can you maintain the same size of fleet, I guess, as you take advantage of a very strong secondary market and will that come using your existing supply agreement in manufacturing? Because I would imagine it's very challenging to add in the secondary market, given how strong it is.

Paul Titterton:

Yeah. So, this is Paul. I'll start, and I think Bob may chime in as well here. But yeah, I mean, at the end of the day, first of all, we're economic animals. So, we're going to invest and divest based on what the economics tell us. And so, we'll buy when we can generate a positive NPV from buying, and we'll sell when we can get a higher price than our hold value.

So, with that having been said, we are conscious of the benefits of scale in our business, and we believe we can maintain those benefits of scale. And I'll add actually, that within the secondary markets, we are seeing some increasing ability for us to be successful while sticking to our investment discipline. And so, I'm cautiously

optimistic that we're going to see more success in the secondary markets. Certainly, the indications are that we're seeing that right now.

Bob Lyons:

Yeah, Matt, I'd just add to Paul's comment, too. I've been encouraged actually on both sides of the secondary market as 2022 unfolded, and we're seeing, I think, similar trends here in the early part of 2023 for opportunities to sell, but also to be a little bit more successful in our bidding activity on the buy side.

Matt Elkott:

Is this -- are these encouraging signs for potential acquisitions in the secondary market coming from larger fleets, Bob and Paul, or smaller privately-held fleets?

Bob Lyons:

It can be either. And we -- given our activity and our presence in the market, we see portfolios and we see the kind of offering packages from both the big and the small sellers, so it's both. And we've seen -- I would say that the success rate has also been driven by the fact that we've seen some offerings of assets that are of particular interest to GATX in -- where we have a set view and a very potentially unique view on trends over the longer term. So, we've been able to ferret out some pretty good buying opportunities.

Matt Elkott:

Got it. Bob, are you surprised that secondary market valuations have held up so strongly despite the interest rate increases?

Bob Lyons:

Well, at a high level, I'd say yes because, I guess, I wake up being pessimistic. But you would think with rising interest rates that that would somehow eventually kind of lead into less activity in the secondary market, but we haven't seen it. And currently, investors, clearly, they're still searching for hard assets with a very good yield attached. And we have high-quality assets with high-quality customers on long-term lease,

very strong, high-quality cash flow. And so, there's still a robust market for those.

Paul Titterton:

And I'll just add, too. This is Paul speaking again. We've been very successful recently attaching more cash flows to those assets in our portfolio. We've used this strong market to originate attractive leases, which will allow us to sort of restock the portfolio of potential sales going forward. So that's one of the benefits of a strengthening market like this, is it allows you to continue to reload your potential future secondary market offerings.

Matt Elkott:

Got it. Thanks, Paul, Bob, Tom and Shari.

Bob Lyons/Shari Hellerman:

Thank you.

Operator:

The next question is from Allison Poliniak with Wells Fargo. Your line is open.

Allison Poliniak:

I just want to go to that algorithm that you guys have historically provided in terms of rail velocity and cars needed online. I know you're -- you've sort of come up broken last year. But as we sort of entered this year, how are you viewing that we could be in a situation of, I would say, accelerating velocity potentially and freight coming down the other side of it. So I would just love your perspective on that, if that's a risk as we look out to the back half?

Paul Titterton:

So, I think with respect to velocity -- this is Paul speaking again. First of all, what I want to say is it's going to be difficult to predict railroad velocity. And so, the railroads obviously are trying to hire. They're trying to improve service right now. We're certainly not in a position to predict on behalf of the railroads and what's going to happen with velocity.

We do continue to have the view, though, that there is what we refer to as "freight on the sidelines," -- freight that is not moving right now, that could move in the network if service were improved. So, when we look out and look at the possibility of improved velocity, improved network fluidity, we don't necessarily see that as a downside as we might have seen in the past because we think there's freight that wants to be on rail that we'll move onto rail once the service is available to take it. So, I would describe us as more optimistic in the face of potentially improving velocity than we might have seen in other cycles.

Bob Lyons:

And Allison, and I'll add to that too, Paul's comment there that, as we said historically, better -- higher velocity and more opportunities for the railroads is not something that we fear. We want our customers choosing rail as their mode of choice. And so, we don't want a situation where customers are frustrated because they can't move product by rail and look elsewhere. So, we feel much better and as Paul said, more optimistic about the fact that if they do improve velocity, we know from talking with customers, there's product that are ready to go on rail.

Allison Poliniak:

Great, that's helpful. And then just a question on boxcars. It seems like there's been a structural decline in terms of a lot of scrappage, not necessarily surprising. But just want to understand how you view that. I see you investing, but maybe not at the level of the scrappage rate. Is there a size that maybe you're too large right now? Just any thoughts on that fleet overall.

Paul Titterton:

No, actually, I would say quite the opposite. We've been investing in boxcars as has the industry. We're not alone in that. We're going through a cycle because there were a huge number of boxcars built in the 1970s, really up through 1981, and those are scrapping out. So, what we're seeing here is the aging out of the fleet and then the replacement investment in

higher capacity, newer cars to address that. And we think that that replacement demand is attractive. We also think that to the extent we see more modal shift to rail, particularly ESG-driven modal shift, in the future from companies that want to reduce the carbon footprint, the boxcar could really be a beneficiary of that. So, I would say right now, for us, the boxcar portfolio has been a good portfolio for us, and we're hoping and expecting it continues to be a good portfolio for us.

Allison Poliniak:

Perfect. Thank you.

Operator:

The next question is from Bascome Majors with Susquehanna. Your line is open.

Bascome Majors:

Looking at the portfolio, can you talk a little bit about where lease rates are versus your assessments of the long-term average?

Paul Titterton:

So, we are finally in a position now where we can report that, for most of the portfolio -- for the significant majority of the portfolio, lease rates are now generally over their long-term averages. It's higher for certain car types, lower for other car types. And I would say right now, slightly higher across the board for tank than it is for freight. But in both cases, we are generally at least a bit over our long-term averages across the portfolio.

Bascome Majors:

And as you look forward and think about positioning the portfolio, can you talk a little bit high level about your priority of rate versus term this year and where you're really pushing harder?

Paul Titterton:

So, we are -- as we are in all rising rate environments, particularly when rates get above our long-term averages, we are going to work

with our customers to incentivize them to choose longer-term leases. And so, this is a playbook that we've repeated in every upcycle, and we're going to continue to push on that now.

Bascome Majors:

And lastly, it certainly sounds at least with the tone that you're more enthusiastic about investing acquisitively in North American rail assets today than you have been in any recent quarter. Can you talk a little bit about -- I mean, are we right in that assessment? And regardless of whether we are or not, just anything that you can share about what has changed or what opportunities present themselves and how assets are being kind of shaken out of where they were or valuations are being changed. Anything to just give us a little bit of more color on that would be helpful. Thanks.

Bob Lyons:

Sure, Bascome. What I would say is up or down market, GATX is always interested in adding assets to the portfolio, particularly rolling stock. We've done so in up markets. We've done so in down markets. It comes down to us -- to the attractiveness of the underlying asset and the economic return we can earn. And so, the diversified fleet that we have, there's no asset out there we're not familiar with.

And absolutely, we want to continue. The portfolio is very -- the franchise is very scalable; platform is very scalable. We want to add assets, but we certainly won't chase them. We will be -- continue to be very disciplined and selective. But yeah, we're always -- there probably isn't many portfolios or many assets that change hands out there that we don't get a look at and we buy when it makes sense and checks all the right boxes for us.

Bascome Majors:

But to follow up, it certainly seems like your enthusiasm on something happening sooner rather than later, it's different than it has been in recent quarters. I'm just trying to understand if there are new assets that have presented themselves or valuations are coming down

broadly across the board and really just trying to square that with your enthusiasm for continuing to generate quite a bit of remarketing income in the North American rail business. Thanks.

Bob Lyons:

Well, I don't think our view has changed materially over the course of the last few quarters or last few years, for that matter. There's often more portfolios talked about than actually come to market; that proves true up or down markets. Would we be an interested buyer? Always. Are we going to be extremely disciplined? Always.

I think the earlier -- the comment earlier on this call really referred to smaller opportunities that we've seen, one-off, asset-type acquisitions that we've been able to execute because we like a particular asset. But as far as bigger portfolios are concerned, I don't really have any other comment to add on that. Would we be interested? Of course, but have no insight or thought on anything taking place in the market.

Bascome Majors:

Thank you, both.

Bob Lyons:

Thank you.

Operator:

(Operator Instructions) The next question is from Justin Bergner with Gabelli Funds. Your line is open.

Justin Bergner:

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

Shari Hellerman:

Good morning.

Bob Lyons:

Paul's offended, Justin [Laughter]

Justin Bergner:

Good morning, Paul. I haven't met you in person. Good morning, as well.

Paul Titterton:

Good morning, Justin.

Justin Bergner:

First question would just be on some of the market dynamics. So, you talked about, I think, sequential, low double-digit lease rates in tank and freight, which would have been an acceleration from, I guess, the 5% or less last quarter. So, what's going on to drive that acceleration from your vantage point?

Paul Titterton:

So, it's really more of the same phenomenon we've talked about in recent calls, which is to say you have an existing railcar market that is relatively tight, and that's been driven by a fair bit of scrappage. It's been driven by a relatively low velocity on the part of the railroads and it's been driven by the fact that thanks to high new car prices and labor availability, the new car production that we're seeing is not consistent with past upswings in the market.

So, you have less new capacity coming in. You've had older capacity going out and you've had relatively low velocity coupled with what we think is a continued relatively robust underlying demand to move freight by rail. So, it's really all of those things that have created tightness in the fleet and that have allowed us to increase prices.

Justin Bergner:

Gotcha. All right. So, the new car production constraints are maybe not something that -- were as highlighted before that are part of the equation, I guess.

Paul Titterton:

Yeah, that is correct. I mean, if you look back to the crude boom, you had an industry that produced new cars at a rate of up to 80,000 a

year. And at current production levels, the industry is going to be nowhere near that level. So that's one of the key differences in this market.

Justin Bergner:

Okay, that's helpful. And then the scrappage rate, I guess, at least on your books of about 500 cars per quarter that's still a healthy scrappage rate, and I assume it's reflective of what's going on industry-wide. Is that sort of a reasonable run rate going forward? Or are we going to sort of go below normal scrappage given how many cars were scrapped in 2021?

Bob Lyons:

Given the size of our fleet, Justin, that's a pretty reasonable number on a quarterly basis or annualized just based on the cars that will be aging out of the fleet naturally -- that's about the right number.

Justin Bergner:

Okay. And then just a couple of nuance questions. What is the marketable security account on your balance sheet, the \$148.5 million -- or the short-term investment number related to the \$148.5 million.

Tom Ellman:

Yeah, Justin, those are Treasuries.

Justin Bergner:

Oh, okay. And on the tax rate, you mentioned sort of it's similar going forward in that 25%-ish range; --so, nothing unusual there. Is there anything as it relates to your ability to, I guess, postpone cash taxes that gets harder as accelerated depreciation comes down.

Tom Ellman:

Yeah, Justin, we don't anticipate anything materially changing as far as cash taxes and our ability to utilize our investment.

Justin Bergner:

Okay, great. And then lastly, just -- you mentioned the breakdown of the increase in expected segment profit and Portfolio Management between RRP and I guess the non-JV part of the book, maybe you just sort of clarify that? I think I missed that. And then is this direct investment -- are you going to see more opportunities there? Or was this more of a one-off?

Tom Ellman:

Yeah, so, the direct investment, originally, was the engines that we purchased a couple of years ago, and then we added to it this quarter with an additional \$150 million of investment. And the combination of those two is what we're referring to with GATX equipment leasing, which is the wholly owned aircraft engines.

Bob Lyons:

And Justin, we'll continue to look for opportunities there as well to kind of methodically, systematically add to that portfolio. We like the asset a lot. It's been a great return managed by our joint venture partnership. Those are a very good fit for what GATX does well. And with our partner, managing them, it's a good equation. So yeah, we'll continue to look for opportunities there.

Justin Bergner:

Okay. You said 2/3 of the increase in Portfolio Management profit is likely to come from the JV and 1/3 outside the JV?

Tom Ellman:

Correct.

Justin Bergner:

Okay, got it. Thank you.

Bob Lyons:

Thank you.

Operator:

We have no further questions at this time. I'll turn it over to Shari Hellerman for any closing comments.

Shari Hellerman:

I'd like to thank everyone for their participation on the call this morning. Please contact me with any follow-up questions. Thank you.

Operator:

This concludes today's conference call. You may now disconnect. Thank you.