Operator:

Hello, and welcome to the GATX 2023 Fourth-Quarter Earnings Call. (Operator Instructions) I will now turn the conference over to Shari Hellerman, Head of Investor Relations. Please go ahead.

Shari Hellerman:

Thank you, Sarah. Good morning, and thank you for joining GATX's Fourth-Quarter and 2023 Year-End Earnings Conference Call. I'm joined today by Bob Lyons, President and Chief Executive Officer, Thomas Ellman, Executive Vice President and Chief Financial Officer, and Paul Titterton, Executive Vice President and President of Rail North America.

As a reminder, some of the information you'll hear during our discussion today will consist of forward-looking statements. Actual results or trends could differ materially from those statements or forecasts. For more information, please refer to the risk factors included in our earnings release and those discussed in GATX's Form 10 K for 2022 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 2023 fourth-quarter and full-year results, and then I'll turn it over to Bob for additional commentary on 2023 as well as our outlook for 2024. After that, we'll open the call up for questions.

Earlier today, GATX reported 2023 fourth-quarter net income of $66 million or $1.81 per diluted share. This compares to 2022, fourth-quarter net income of $48.4 million or $1.36 per diluted share. The 2023 fourth-quarter results include a net positive impact from Tax Adjustments and Other Items of $0.07 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.

For the full-year 2023, GATX reported net income of $259.2 million or $7.12 per diluted share. This compares to net income of $155.9 million or $4.35 per diluted share in 2022. The 2023 full-year results include a net positive impact from Tax Adjustments and Other Items of $0.05 per diluted share. The 2022 full-year results include a net negative impact from Tax Adjustments and Other Items of $1.72 per diluted share. These items are detailed in the supplemental information section of our earnings release.

In 2023, total investment volume was over $1.6 billion as we increased investment in Rail North America, Rail International and our fully-owned engine portfolio.

In the coming year, leases for approximately 19,400 tank and freight cars and approximately 1,900 boxcars in North America are scheduled to be renewed. These renewal levels are similar to those we've had in recent years. Lastly, as noted in the release, we expect 2024 earnings to be in the range of $7.30–$7.70 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. For those of you that follow us closely, you know we are generally very brief in our opening remarks. But given that we're at year end, we thought it would be helpful to spend a little bit more time. So, I appreciate you bearing with me as we go through some of the details. I'm going to provide some brief comments on 2023 performance versus the outlook we had coming into the year, and then I'll add some additional color to the 2024 guidance that was included in today's press release. But before diving in -- first, I want to thank our employees for their focus and their efforts this past year. In particular, our employees who work in our maintenance network and who work in our shops, both in North America and Europe.

Once again, they did an outstanding job in the face of very high demand for shop services. And I'm very pleased that our safety record in the shops in 2023 was excellent. Our shop management and employees continue to strive for efficiency while focusing on safety, and that's what matters most. So, a thank you to all of our employees on the shop floor who really make this company tick.

Looking more broadly at our business segment performances, I'm pleased with the contribution across the board, whether it was Rail North America, Rail Europe, India, our engine leasing activities, or Trifleet. Everyone performed at a very high level this past year, and I fully anticipate continuing this momentum through 2024.

Our broad goals at GATX remain unchanged, and they're very straightforward: operate safely; grow our global businesses in a disciplined manner; be a good corporate citizen; be good stewards of our shareholders' capital; and generate an attractive, risk-adjusted return for our shareholders. And on that note, I'm pleased that in 2023, our total shareholder return was 15.2%. And, very important to us, the 10-year return, because we think very long term -- the 10-year return was 11.4%.

So, looking back on 2023, we came into the year expecting EPS in the range of $6.50 to $6.90 per diluted share. As reported today, we exceeded that guidance and it really boils down to a few factors. First, Rail North America's segment profit came in below our original expectations, primarily due to increased demand and net maintenance expense in our shops. I'll go into more detail on that in a moment. But, by every commercial metric, such as the LPI, utilization, renewal success rate and investment levels, we had a great year at Rail North America.

Rail International performed in line with our positive expectations coming into the year and the biggest source of variance versus our expectations on the positive side were results at Portfolio Management, which incorporate all of our engine leasing activity. The recovery in global air travel occurred much faster than original expectations, and our results reflected that.

Looking specifically at Rail North America in 2023 -- first, the lease rate environment for existing railcars was very favorable. Customers remained focused on holding onto the cars that they had in their existing fleets, and our commercial team did an outstanding job of working closely with our customers to meet their needs. Lease revenues came in well ahead of expectations. Importantly, we were also able to establish lease terms in excess of 60 months on renewals, meaning that we have locked in those committed, attractive, high-quality cash flows for years to come.

While revenues came in ahead of our original expectations, not by a large enough margin to offset the impact of increased maintenance expense and higher interest expense. The interest expense component was actually largely driven by a positive long-term factor that being our investment volume was well ahead of plan. We identified more attractive investment opportunities than expected. We executed on those, and I view this as continuing to build our foundation for the future.

On the maintenance side, demand for shop capacity and services was north of what we planned. Key driver to that was that we experienced a higher volume of cars due for regulatory service. It is always really difficult to estimate exactly when those cars are going to come into the shop because the customer often times controls that decision. And frankly, we undershot and under budgeted for that in 2023.

Additionally, and this is a net positive as reflected by our lease revenue performance this past year, we ran the fleet at extremely high utilization, so any cars that were returned by Customer A, for example, went through our shop and on to Customer B very quickly. Now, we incur a shopping event and cost when that occurs, but net-net, it's a positive as the car is back out on a long-term lease earning revenue instead of sitting idle for an extended period. In summary, versus our expectations coming into the year, Rail North America had higher lease revenue, which was offset by higher maintenance and interest.

We always get questions on remarketing income, too. So, I'll just add that remarketing income came in generally in line with our expectations entering the year. Demand for our railcars in the secondary market was very robust, and we used the opportunity to continue optimizing the fleet.

Looking at Rail International, segment profit was up nicely in '23 versus '22, and right in line with our expectations. We saw very strong demand for existing assets in Europe and India, but we were also able to invest close to $400 million across these markets, a record level. We continue to

grow our European and Indian fleets and our teams there are operating at a very high level.

As I mentioned, the largest source of outperformance from '23 versus original expectations was within our engine leasing activities. Global air travel recovered in 2023 at a pace far quicker than anyone planned. As a result, we had higher engine utilization at our joint venture, RRPF, at higher-than-planned lease rates and fewer customer issues and bad debt expense. Importantly, we're also seeing the income benefit from our direct investment in engines, and we made another direct investment in 2023 for $260 million. These factors led to a sharp increase in segment profit within Portfolio Management.

The last comment I'll make on 2023 is that we had a record year for investment volume, exceeding $1.6 billion, with every business segment contributing. Even in a rising interest rate environment, we were able to identify very attractive investment opportunities. And I'd encourage everyone to keep in mind, we are acquiring 20-, 30- and 40-year assets, and I'm confident that these investments will provide our investors with a growing global platform with very attractive, risk-adjusted returns.

So, I'm very pleased with '23, but I'm even more excited about where this positions us for 2024 and beyond. So, let's get into 2024.

At Rail North America, we anticipate demand for the existing fleet will be solid, with utilization remaining in the 99% range. We see renewal success continuing at the high levels experienced in 2023. And we anticipate the LPI will be in the range of plus 30% in 2024. Again, with very attractive terms attached. Coupled with new additions to the fleet, we expect lease revenue to increase $80 million to $90 million in '24 versus '23. Interest expense will continue to increase, reflecting the compounding effect of rising interest rates over the past 18 months and our growing asset base.

So, we see interest rates increasing $40 million to $50 million at Rail North America in 2024. For net maintenance expense, we anticipate a very modest increase from 2023. We will see some uptick in regulatory compliance work, but also a benefit from overall sharp operating efficiencies. So, therefore, we see net maintenance coming in flat to plus $10 million in the year ahead.

As for remarketing income, we again expect a very robust demand for our assets. And in fact, we've seen steady inquiries from potential buyers and a lot of interest in the packages that we've already taken out to market. Following a very busy calendar for asset sales in the past few years, in 2024, we currently expect to market slightly fewer cars, resulting in remarketing income being $10 million to $20 million less than '23's level. This would place remarketing income in the $90 million to $100 million range for 2024, a very solid year.

I'll also add a bit of a disclaimer that this is another element of our forecast that's really hard to pinpoint. The level of sales activity is always tough to gauge coming into a year. But, as I said from where we sit today, this is the best estimate, and, as we always do, we'll try to keep you updated as the year progresses.

The net result of all these factors, after incorporating some minor line items, is that we see segment profit at Rail North America being up between $10 million and $20 million in 2024.

At Rail International, we expect segment profit up $10 million to $15 million in 2024, with the main drivers being continued growth in our European lease fleet and in India. In fact, in Europe, we will surpass 30,000 railcars in our fleet this year, and we expect to see rising lease rates on many of those car types. While the upper economic outlook in Europe is muted with low, single-digit GDP forecast, demand for rail services continued to be solid. In India, we have the benefit of GDP growth that's forecast to be in the high, single digits, one of the strongest outlooks in the world. India is going to continue to build out its infrastructure, including roads, homes, hospitals, schools, government buildings and so on. And to do so, there will be a growing need for cement, steel and other materials that move by rail. You couple that with the focus by the Indian Railway to continue building out dedicated freight rail capacity, and we should see strong fleet growth at GATX India. In fact, in 2024, GATX Rail India's fleet will likely go over the 10,000-railcar mark -- quite an achievement given that we were the first

railcar leasing company in India. And 10 years ago, we had a fleet of just a few hundred cars and all the credit goes to our outstanding team in India.

For our engine leasing investments within Portfolio Management, we expect to see strong demand as global air travel continues to recover to pre-pandemic levels and beyond. We're expecting segment profit to be up $5 million to $15 million in 2024 -- a very nice performance, especially given the sharp increase we saw just this past year in '23 over the prior year.

Looking at SG&A, like most companies we're experiencing rising labor costs. You pair that with a slight increase in headcount, which I'll point out is primarily to support our international growth, and we're forecasting SG&A to be up between $10 million and $15 million in the year ahead.

We're entering the year on the heels of a record investment volume of $1.6 billion in '23. The good news is, based on committed investments and opportunities, we anticipate, during the year, we expect to be close to the same range in 2024. That bodes very well for 2024 and the years beyond. All of the factors just discussed, form the basis of our current estimate of $7.30 to $7.70 per diluted share.

Before a closing comment, I'd like to mention the dividend. We routinely get asked about dividends on the January call. GATX has paid dividends continuously now for over 100 years, and we understand the importance of the dividend to our shareholders. We have a regularly scheduled GATX Board meeting this Friday. So, please take a look for an announcement on the dividend on that day.

Lastly, GATX celebrated a couple of major milestones this past year. Most notably, our 125th anniversary and the 25th anniversary of our partnership with Rolls-Royce. GATX is a very different company, a far stronger company than we were 125 years ago, 25 years ago or even five years ago.

We continue to expand our global footprint in rail, and we're the leading global lessor of rail assets. Contributions from Europe and India and Rail add diversity and stability to our cash flow and our earnings. Likewise, our investments in aircraft engines have proven to be great additions to the GATX portfolio.

While the COVID era was a challenge, it proved once again that air travel is remarkably resilient. Aircraft engines are high-quality, service-based assets that are a great store of value. And with our partner, Rolls-Royce, we enjoy a very unique and valuable position in the engine leasing market.

So, our growing international rail businesses, along with our growing aircraft engine investments, our outstanding compliments to the leading rail leasing franchise we have and will continue to grow in North America.

So, thank you all for enduring my somewhat lengthy comments on 2023 and the outlook for 2024. And with that, we will go to questions.

QUESTION AND ANSWER

Operator:

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

Justin Long:

Thanks, and good morning.

Bob Lyons:

Morning.

Justin Long:

And maybe to start, I was wondering if you can share the absolute lease rate trends, sequentially, that you saw in the fourth quarter and when we think about the LPI guidance to be in that 30% range, what does that assume for how lease rates will trend over the course of the year on a sequential basis?

Paul Titterton:

Sure, I'll take that. This is Paul Titterton and thanks for the question. And what I would say, broadly, to start, is lease rate performance in

North America has been quite strong for quite some time right now. We are seeing in absolute sense a relatively flat environment versus the prior quarter. But as indicated by the LPI, base relative to the expiring rates, we are expecting continued positive performance. And overall, we would say in an absolute sense, the leasing market for most car types in North America remains quite strong.

Justin Long:

Got it, thanks. And maybe one on the RRPF contribution in the fourth quarter -- there was a pretty significant step up sequentially. I was wondering if you could break out that fourth quarter contribution between remarketing and just the core operating results. And maybe you could talk about those two buckets progressing in 2024, in terms of what you're baking into the guidance there?

Tom Ellman:

Hi, Justin, this is Tom. So, what I would tell you is that for the fourth quarter, it was about 60% Operating Income, about 40% Remarketing. As you know, having followed us for a long time, it's really difficult to predict exactly how that remarketing piece will move over the course of any given year, but something in the range that we saw for the full year, which was about 55% Operating Income and 45% Remarketing wouldn't be unreasonable.

Justin Long:

Okay, understood. I'll leave it there. Thanks for the time, and congrats on the results.

Bob Lyons:

Thank you.

Operator:

Your next question comes from the line of Matt Elkott with TD Cowen. Your line is open.

Matt Elkott:

Good morning. Thank you. I was wondering if you can talk about the additions to the fleet in 2024 -- do you see the best opportunities in the secondary market or in the new car market?

Paul Titterton:

So, this is Paul. I'll take that. And what I would say right now is, overall, we've seen higher quality investment opportunities in a variety of areas within Rail North America. There certainly have been opportunities in secondary markets and syndications that we've taken advantage of. But, I will also say in the primary market in our originations of new car leases, we're also seeing very attractive opportunities. So, really, from an investment standpoint in North America, there are quality opportunities, both in primary originations and secondary markets and syndications.

Matt Elkott:

Got it, good to know. And then one question on India. You guys basically started this market as a privately-held freight car lessor in India. Can you give us an update on the competitive landscape right now? Are you still the biggest operator there? Do you see interest from potential new entrants as the growth prospects prove to be strong and sustainable?

Bob Lyons:

Sure, Matt, it's Bob. We are far and away the largest private owner of railcars in India. There are some other competitors that periodically appear, but they don't have anything of size in terms of fleet or from what we see, a significant foothold in the marketplace. The one area we would compete, and so I don't want to give you the impression that it's just unfettered prospects because our customers have alternatives and one of those would be bank financing or owning the assets outright themselves. These are big, formidable, large entities, so they can buy as well, just like here in North America. But from a leasing standpoint, we are far and away the largest and I think generally recognized as the leader and certainly recognized by the Indian Railway as the most advanced in the market.

Matt Elkott:

Okay, so it's more of a question of how much traction the business model you guys introduced into the market gets versus other ways of acquiring assets -- that's good to know. So, and I think you mentioned just a quick clarification -- you mentioned over 10,000 cars at the end of 2024, you think your new fleet will be?

Bob Lyons:

Yes, if we meet our investment targets for this year, that would be the expectation.

Matt Elkott:

What about the overall fleet globally in Europe and in the U.S., do you expect that to grow as well by the end of '24?

Bob Lyons:

India, we would expect for sure, because it continues to be such a growing market. And in fact, in certain car types, the Indian Railway has pretty sizable orders to expand its own fleet. And the issue, really, in India, is not so much the growth there --it's the ability to get the wagons and to continue to diversify into different car types and different customers. The growth, you know, based on the prospects today is there. The European market is a little bit more, I would say akin to North America, in terms of maturity. So, we wouldn't anticipate any, and are certainly not banking on any, significant growth in the overall fleet in Europe.

Matt Elkott:

Got it, thank you very much, Bob. Thanks, everyone.

Operator:

Your next question comes from the line of Allison Poliniak with Wells Fargo. Your line is open.

Allison Poliniak:

Hi, good morning.

Bob Lyons:

Morning.

Allison Poliniak:

Really starting bigger picture – utilization, let's just look at Rail North America. Utilization is really high. You have the rails improving service really focused on trying to capture growth. Would just love to get your perspective. I guess one, what -- do you think the equipment market is investing enough at this point, just given where utilization is for that potential inflection? And then two, I guess, how is GATX sort of managing that potential dynamic? Just any thoughts there? Thanks.

Paul Titterton:

Sure. So, it's good question, Allison, this is Paul. I'll take that. So, what I would say right now is investment continues at a kind of slightly above replacement pace in North America, overall. So, with core carloads, we measure them up maybe low, single digit percentage year-over-year -- that's an investment pace that should be adequate to keep pace with demand in the context of a somewhat improving service.

And I will say we hear from our customers, that service is improving and the metrics of dwell time and velocity that are reported would bear that out. So, with modest growth, modest service improvements and a modest level of investment that speaks to a pretty balanced market. One of the nice things about the market that we see right now, frankly, is, unlike past tight railcar markets, we haven't seen that enormous build wave. If we look back at the ethanol boom or the crude boom, we saw build years where the industry would produce upwards of 80,000 cars and then there would be a huge hangover after that excess production. In this tight market, we're seeing industry-wide production in North America that tops out in the 40s. And so that speaks to, I think, a much more balanced, much more disciplined market, which should be good for all participants.

Allison Poliniak:

Got it, thank you. That's helpful. And then on Other Revenue in Rail North America, Bob, I know

you mentioned sort of the speed to get sort of those cars back on lease and so forth. Should we expect that to be elevated again in '24? Like, how should we be thinking that. Sorry, if I missed any commentary there.

Bob Lyons:

Are you speaking specifically to the Other Revenue line …

Allison Poliniak:

Yeah, the Other Revenue, sorry.

Bob Lyons:

We're not anticipating any significant growth, any -- any abnormal growth in that line item in 2024 --should grow right along in line with Lease Revenue.

Tom Ellman:

And Allison, just to put some perspective on that – really, what you need to do is look at that in conjunction with the Maintenance line. So really, I'd guide you to Bob's comments on Net Maintenance being somewhere between flat and up $10 million.

Bob Lyons:

The biggest component of Other Revenue is essentially billed back to the customer.

Allison Poliniak:

Got it, thank you.

Operator:

Your next question comes from the line of Bascome Majors with Susquehanna. Your line is open.

Bascome Majors:

Thanks for taking my questions. Going back to your thoughts on the North American secondary market and a very high level of P&L from that historically, but a little down from where you were last week. Can you talk a little bit maybe, qualitatively, about the depth of the market -- the buyers?

And just anecdotally, how that feels today versus how it's felt over the last couple of years? And then maybe a little more precisely, just any thoughts on how that profit assumption correlates to your plan to sell fewer railcars? Or is it really just the gains on individual units coming down a little bit from where they were in the last few quarters? Thank you.

Paul Titterton:

Sure. So, this is Paul. I'll take that. And yeah, the bottom line for the secondary market is it has been robust and it continues to be robust. We continue to see a large number of participants on the buy-side with a lot of depth. And whenever we see packages, whether it's our own packages or other packages in the market, the response has continued to be robust, and we anticipate that robustness continuing.

To the second part of your question, really, for us, we're trying to make good portfolio decisions. And so ultimately, we're really looking at the economics of the transaction, more than we are the accounting gains. We're really trying to optimize the portfolio either from a credit or asset or market or term standpoint. And really, we're using those sales in the secondary markets to balance out that portfolio and ensure we've got a diverse and attractive portfolio along all the dimensions that I just mentioned.

Bob Lyons:

And Bascome, I'd add -- we did come into this year, I think, into 2023 that is, feeling in a rising interest rate environment that the secondary market condition was probably more uncertain, but it remained really strong throughout the entire year -- continues to be strong. And I think it speaks to the quality of the underlying asset. Railcars have proven, over time, to be great stores of value and very good assets to hold long term. So even with interest rates up where we thought, well, maybe the buyer universe would shrink a little bit -- still there, still great depth, still a lot of activity.

Bascome Majors:

I appreciate the responses on both of those. I believe you mentioned that you expected to put a similar amount of capital to work this year from where you sit today as you did last year, which was $1.6 billion - $1.7 billion, a fairly large number. Can you talk a little more about the opportunities you see? I think it was maybe 60% of that went to North America, 20% - 25% International and the rest in some of your other businesses. Is your opportunity set in where you see investments this year looks a lot different than what we've seen over the last 12 to 18 months?

Bob Lyons:

Yeah, it's not a lot different, Bascome. In fact, it's pretty similar to what we saw this year. Whether it would be within GATX Engine Leasing, that's within Portfolio Management --we invested about $267 million this past year for 10 engines. We would anticipate being right in that same range and based on the outlook we have for Rail North America and internationally, those markets should be very similar to where we were last year. Rail North America was north of $970 million. So maybe it's not right on top of that number, but it's certainly in that neighborhood. And then GRE -- GATX Rail Europe and India were both, combined, about 400. We're looking at about the same again this year.

Tom Ellman:

And Bascome, I'd just remind you of Bob's comments of some of the challenges of getting the assets, particularly in India. That's one of the things that causes us to have a little uncertainty on exactly how much we can do.

Bascome Majors:

Lastly on that, do you see any more assets where you could start to build a platform and maybe invest in assets related to what you've done before, what markets you're currently in or do we expect it just to look a lot more like it has looked per your earlier comments?

Bob Lyons:

Well, our focus on long-lived, widely-used assets with a service component where you need intense asset knowledge to succeed, will not change. We see pretty much every M&A opportunity out there, remotely related to the leasing world, but you have to pass those four criteria because that's what works for GATX. That's where we generate the best return for our shareholders.

We did add Trifleet, the largest -- one of the larger tank container lessors in the world a few years ago to the portfolio -- that asset meets all of those criteria. It's a good platform that's scalable, but we continue to integrate that into our operations overall. But we pass on far more than we pursue, and that will not change. That discipline won't change. And with $1.6 billion of investment volume this past year, and a similar outlook for 2024, there's a lot of opportunity for us right in the markets we're in today.

Bascome Majors:

Thank you for the time.

Operator:

Your next question comes from the line of Justin Bergner with Gabelli Fund. Your line is open.

Justin Bergner:

Good morning, Bob, Tom, Paul and Shari.

All:

Morning.

Justin Bergner:

First question relates to the secondary market -- on the one hand, you're indicating the secondary market is strong and pricing is strong. On the other hand, you're seeing a lot of opportunities to put money to work. So can you sort of reconcile those two aspects of the market?

Paul Titterton:

Yeah, for us, it comes down to portfolio management. As I said earlier, we're using the secondary market to optimize our portfolio. And at the same time, the fact that we're able to generate attractive both economic and book gains in the secondary market doesn't change the fact that there is also high-quality investment available to us on the buy-side. And so really for us, every decision we make, whether it's to sell into the secondary market or to originate in the primary market or buy in the secondary market. We're making that on the basis of deploying and harvesting our shareholders' capital in the optimal way possible.

And so in the current market right now, on the sell-side, we are certainly seeing lots of attractive opportunities where the market is valuing certain parts of our portfolio on the buy-side higher than we value on a hold side. At the same time, we're seeing tremendous opportunity to put capital to work where there are attractive returns available. So that's really the mindset we have. We're constantly looking at ways to optimally deploy and harvest our shareholder capital on the buy-side and the sell-side.

Tom Ellman:

Justin, also, I would remind you that we have the most diversified fleet in the industry and something we've talked about before, as you know, the car types we're selling are not the car types we're buying.

Justin Bergner:

Okay, got it. So, is it -- are you buying a very balanced set of car types and selling more specific set of car types? Or are they both very tailored, to specific?

Bob Lyons:

Yeah, I would say they're both very tailored, to specific. And keep in mind, too, when we're in the market on the sell-side, we're typically selling in very small lots. We don't sell 2,000 cars at a time or 1,000 cars at a time, it tends to be 50 or 100. And so it's very, very targeted, very specific. With a fleet our size, we can do that. And with the diversity we have, we can do that. We can really pick and choose. Likewise, on the buy-side, we don't have to buy anything -- that's always a good position. I always liked being in that position.

We don't have to buy anything. We don't need anybody's customer base or platform or anything else. What we're looking for is a very targeted asset type. And we're seeing -- we saw some of those opportunities last year. And we think we'll continue to see some of those this year. And I'll let Paul, add anything to that if he wants.

Paul Titterton:

Yeah, and I will just say too, that's really the advantage of having such a liquid secondary market and so many participants within the North American secondary market is -- you're going to have different participants that have different appetites for different assets. A great example is, assets trending towards end of life, where there may be smaller lessors that specialize in those assets where we may decide we're going to be in harvest mode there. And some of those buyers may offer us very attractive pricing -- we will then reinvest the proceeds in modern, either new or nearly new assets that fit our long-term portfolio approach. That's just one example of the many ways we think about buying and selling.

Justin Bergner:

Got it, thank you for that. On the Rolls-Royce joint venture, how does the 55% Operating Income versus 45% Remarketing Income mix that you saw in 2023, and expect to see in 2024, compare to longer term?

Tom Ellman:

Yeah, Justin, it clearly moves around just because of how much that remarketing piece can change year to year, but at least the most recent history, it was similar in 2022.

Bob Lyons:

Yeah, the other thing I would remind folks of, is that remarketing activity or asset sales activity on the engine leasing side is very different than remarketing activity at North American Rail, where we're selling lots of different types of

assets. And, you know, at a lower starting net book value. Engines are expensive assets, so one or two sales in a given year -- three sales, what have you, in a given quarter has a much bigger impact than the kind of the steady drumbeat of sales we do at Rail North America.

Justin Bergner:

Great, thank you. Just if I could get one more in, do you expect the maintenance level in 2024 to be above normalized levels, assuming it was also above normalized levels in 2023?

Bob Lyons:

What we expect for Rail North America net maintenance expense in 2024 is either flat to up $10 million – it's what we have already baked into our guidance for the year, which is a little bit of an elevated level of regulatory compliance that should pare back in the years ahead. But this year, 2024 and likely '25, we're kind of in this range of regulatory activity.

Justin Bergner:

Great, thank you for taking my questions.

Operator:

Your next question comes from the line of Brendan McCarthy with Sidoti. Your line is open.

Brendan McCarthy:

Good morning, everybody, and thanks for taking my questions.

All:

Morning.

Brendan McCarthy:

Just wondering, first off, if you can touch on the lower income tax expense and what drove that in the fourth quarter of '23?

Tom Ellman:

So, one of the things that can be a little challenging is to take out the normalizing items from the effective tax rate. So, if you look at where we were in 2022, we were just below 26%. If you look at the normalized tax rate, including share of affiliates, we expected to be around the same level in 2023. And indeed, we were almost identical, so '22, '23, and our own expectations for '23 were all almost exactly the same.

We talked about some of the other normalizing events in the past, but in this quarter, there were two items which are worth your attention and can help to explain that difference. During the year, there were a number of states that enacted statutory tax reductions, which had the impact of reducing our deferred taxes by about $3 million.

Also, on an annual basis, we evaluate the realizability of our state net operating losses and the associated valuation losses. This year's analysis resulted in a tax benefit of $2.3 million. So that $5.3 million tax benefit you have to work in, and that will explain the vast majority of the fourth quarter difference.

Bob Lyons:

And, the estimate for 2024 incorporates the tax level of a similar effective tax rate, normalized basis, similar to 2023.

Tom Ellman:

Yeah, so, we expect it to be another year in that 26% range.

Brendan McCarthy:

Great, that's helpful. Thank you. And then secondly, I know you mentioned the higher debt level kind of being a function of the investment volume, but just kind of wondering if you could touch on the weighted average rate on your debt? And what are your assumptions for the interest rate environment heading into 2024, in general?

Tom Ellman:

Yeah, so, in general, what I would tell you is the environment that we're seeing right now is our general expectation for what we see going forward. Over time, just like we do on the asset side, we really look to take advantage of the

cycle, and we had many, many years of strong debt markets. And over the past decade, we took our average debt rate from over 8% -- I'm sorry, over 6%, to under 4%. And we'll look to continue to take advantage where we can going forward. But, for specifically 2024, I would expect our guidance anticipates similar levels to today.

Brendan McCarthy:

Got it, okay. And then kind of switching gears to the Portfolio Management segment, what percentage, through the post-COVID global recovery in international air travel, would you say we're at, at this point, I guess as of the end of 2023?

Tom Ellman:

So, I'll let Bob add additional color if he'd like, but my short answer is that we've recovered.

Bob Lyons:

Yes, domestic is actually a little bit above where we were pre-pandemic and international is just below.

Brendan McCarthy:

Okay. Okay.

Bob Lyons:

I would also add -- in the depths of the pandemic, on a best-case scenario, you would say that recovery would be in 2025, late 2024. So, air travel has recovered well ahead of that plan.

Brendan McCarthy:

Okay, and I know you mentioned Portfolio Management, segment profit potentially up $5 million to $15 million. What are the assumptions in the wholly owned GEL portfolio? My guess is -- I think there's 29 engines in the portfolio as of end of '23. What are your assumptions for acquisition activity going forward?

Bob Lyons:

Similar to what we did this past year in 2023, we acquired 10 engines for $267 million. We have forecast a similar investment level on a similar number of engines for 2024.

Brendan McCarthy:

Got it, okay. And then one more for me. Just looking at the investment volume in Rail North America, I think there were a little over 1,600 cars added, which is a nice uptick from the past two quarters. I'm just wondering if you can comment on that and what can we think about looking forward to demand in 2024?

Paul Titterton:

So, the investments that we've made in the quarter, and for the year, include both secondary market acquisitions as well as, of course, our ongoing supply agreement purchases from our multi-year supply agreements. And what I would say, we are continuing to see additional investment in 2024 in both of those areas.

Brendan McCarthy:

Okay. Okay, that's all for me.

Bob Lyons:

Thank you.

Operator:

Thank you. There are no further questions at this time. I will turn the call back to Shari Hellerman.

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. We thank you for joining, you may now disconnect your lines.