GATX | GATX Corporation

2012 First Quarter Conference Call April 26, 2012

Operator:

Good day and welcome to the GATX First Quarter Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jennifer Van Aken, Director Investor Relations. Please go ahead.

Jennifer Van Aken:

Thank you Tasha and good morning everyone. Thanks for joining us for the first quarter conference call. With me on the call today are Brian Kenney, President and CEO of GATX Corporation; Bob Lyons, Senior Vice President and Chief Financial Officer and Tom Ellman, Senior Vice President and Chief Commercial Officer. Tom is joining us today to provide additional color and insight on any questions you may have regarding developments in the North American rail industry. I will give a brief overview of the results provided in our press release earlier this morning and then we'll take questions.

As a reminder, any forward-looking statement made on this call represents our best judgment as to what may occur in the future. We have based these forward-looking statements on information currently available and disclaim any intention or obligation to update or revise these statements to reflect subsequent events or circumstances. The Company's actual results will depend on a number of competitive and economic factors, some of which may be outside the control of the Company. For more information, refer to our 2001 form 10-K for a discussion of these factors. You can find these reports as well as other information about the Company on our website, www.gatx.com.

Today, we reported 2012 first quarter net income of $30.3 million or $0.64 per diluted share. This includes the negative impact of $2.2 million or $0.05 per diluted share from tax benefits and other items which are detailed on page nine of the press release. This compares to 2011 first quarter net income of $19.9 million or $0.42 per diluted share, which includes the positive impact from tax benefits and other items of $6.4 million or $0.14 per diluted share.

At the end of the first quarter the North American fleet utilization was 98.5% and utilization in Europe was 96.7%. The renewal rates in the lease price index were 19.2% above expiring lease rates and lease terms were 55 months on average for renewals in the quarter. Our renewal success rate in North America was over 80%, one of the strongest quarters we have seen, and this is having a positive impact on several aspects of our business.

The navigation season has just recently started for American Steamship Company. Based on customer inquiries, we expect to move modestly more volume in 2012 versus 2011. At the end of March, seven vessels were in operation. We expect to operate 14 vessels in 2012 including the newly chartered articulated tug barge.

Portfolio Management had a solid quarter and benefitted from strong asset remarketing results.

Overall the first quarter was consistent with our expectations, and a good start to 2012. As noted in the press release, we expect 2012 full-year earnings to be in the range of $2.40 - $2.60 per diluted share, excluding any impact from tax benefits and other items.

One final note - tomorrow is our Annual Shareholders' meeting. It will be held in downtown Chicago at the Northern Trust building, which is at the corner of LaSalle and Monroe. The meeting begins at 9:00 a.m. Central Time. Slides from Brian Kenney's presentation will be posted to our website – www.gatx.com.

With that quick overview, we'll open it up to your questions. Tasha?

QUESTION AND ANSWER

Operator:

Thank you. (Operator Instructions) And we'll pause for a moment for questions to queue. We'll take our first question from Art Hatfield with Raymond James. Please go ahead.

Art Hatfield:

Hey, morning everybody. Got a few questions here, I think first I'll start with maintenance expense in the Rail Group -- quite a bit lower than we had anticipated. I know you've been going through this kind of bubble of maintenance expense over the last few years. Was something unusual going on in first quarter or have we kind of cycled through all that higher maintenance that you had planned to have over the last few years?

Brian Kenney:

Well, actually, Art, the regulatory maintenance bubble we're talking about, that really was prior to 2009. The last couple years have been relatively constant and that compliance bubble really starts in 2013, but the reduction you see from last year quarter to quarter is really just less cars going through the shops due to that high renewal rate. When you have a renewal rate over 80%, there's very few assignments, less cars attracting work going through your shops. It's just as simple as that.

Art Hatfield:

Okay. Just a couple other things, right now as you look at the business and you're getting extended term, the LPI is very strong. Are you giving up a little bit of price in the market today to get extended term or do you not have to do that given the current market dynamics?

Tom Ellman:

Art, this is Tom Ellman. We always look very carefully at the trade-off between rate and lease term and generally speaking, when we're trying to incent longer term, as we are now, there is a trade-off that you make for price. If we were absolutely focusing on trying to optimize the lease rate, you'd probably see a little shorter term. So we are focusing on taking that term out.

Art Hatfield:

And when you have to do that, you probably don't want to get too specific on that, but do you give up more than 5% or more than 10% on rate to get extended term or does it just vary by individual customer?

Tom Ellman:

You're correct. We don't want to get more specific on that.

Art Hatfield:

Okay. I had to ask.

Bob Lyons:

And it varies, Art.

Art Hatfield:

Okay, that's helpful. Couple other questions, just thinking about low natural gas prices and how that may impact your business, if it could have a positive impact towards your chemical type customers and if that may have a negative impact on the coal cars you have in your business, and if so, kind of what would be the bounce out on that? Would it be a net positive or a net negative as you think about that?

Tom Ellman:

You actually hit all phases of that in your question. For our core tank car business, low natural gas prices are a good thing. They're a feed stock to a variety of chemicals and it really helps us out there. When you look at how it impacts the coal business, on the margin some utilities can differentiate between being coal fired and natural gas fired, and so on that marginal capacity it is a negative on the coal business. The good news there is we think to the extent that that can happen in any kind of reasonable time frame, it mostly has. So we wouldn't expect further switching if natural gas prices stay low, but on the margin it is an impact.

Brian Kenney:

I'd add, Art, that with coal cars about 6% of our fleet and tank cars about 60% of the fleet, it's a net positive.

Art Hatfield:

Right. And that's what I was going to ask that as follow up. I knew where tanks were. I couldn't remember what coal cars were, so that's helpful. Final question, I'll turn it over. Just thinking about your guidance and how the results came in in the first quarter. When I look at where my estimates were versus your results, I was thinking a $0.44 and I'm just going to throw some numbers at you. You report after the adjustment for the swaps, a $0.69 number. If I back out where asset remarketing gains came in, vis-a-vis my estimate, it was probably about a $0.18, $0.19. So the core business came in better than expected. When we think about your guidance though for the rest of the year, can we think about the asset remarketing gains that you got in first quarter being something that is unique to Q1 and that kind of should fall off through the rest of the year or is asset remarketing going to come in as kind of a bigger mix to the results this year than you had anticipated originally?

Bob Lyons:

Well, Art, asset -- it's Bob Lyons. Asset remarketing in the quarter was $22 million. That's a big quarter.

Art Hatfield:

Right.

Bob Lyons:

Last year in total it was $45 million and we indicated we expected full year 2012 that we would be up from '11, but not -- I wouldn't annualize the first quarter. And I understand your point about guidance and the question given the strong quarter why not increase that guidance at this point in time. Obviously, the fundamentals are very solid as noted by the LPI and the renewal success rate and the term we're getting. But we're early in the year too and we want to see how things play out commercially.

Art Hatfield:

Okay, and that's fair. And I just wanted to get your thoughts on the fact that because Jennifer had mentioned in her comments that Q1 results came in as you guys had thought, and I remember your commentary about gains for the year. I just wanted to make sure that you hadn't changed your thought process on that. So for our modeling purposes, we should think appropriately in that regard?

Bob Lyons:

Yes and overall results came in where we thought, maybe a little bit better, but also, obviously, the LPI was stronger than what we had anticipated, which is a very good indicator. The renewal success rate as Brian noted in his comments on maintenance definitely stronger than we anticipated and we're hoping those things continue on through the balance of the year, but we want to see how it works out.

Art Hatfield:

Sure. No, that's extremely helpful. Hey, thanks for your time.

Operator:

Thank you. (Operator Instructions) Our next question comes from Steve O'Hara from Sidoti & Company. Please go ahead.

Steve O'Hara:

Yes, hi, good morning. I was wondering about the increase in lease term. I mean, does that signify any outlook on your part as to where we might be in the cycle?

Brian Kenney:

No. This is Brian. It's simply the way we think about lease term versus rate is we have -- we just don't assume rates are going to go up forever. We realize they're cyclical and when we see rates that are above what we believe the long term average is, we will try to lock those in for as long a period as possible -- it's that simple. As far as where we are in the cycle, you can never really predict that. A frustrating answer is our fleet is so diversified, you really have to go car type by car type and commodity by commodity to see where you are in the cycle. So to give you an example, in coal, I'm pretty certain we're not at the peak right now, right, because it feels more like we're at the bottom, actually. And we could just be a warm summer and a cold winter away from seeing a strong coal market. On the other side of the spectrum would be 30,000-gallon cars where we feel like we're past the prior peak. And there's probably more runway there due to the development in the Bakken. So you really do have to go car type by car type, but if I had to generalize it would be with tank cars once again being 60% of our fleet. It feels like there's a lot of upside left, so I don't feel that we're at the peak on tank. On freight, it's harder because sand, intermodal, coal, they all have different market dynamics and it's harder to generalize. I'd say, regardless, our fleet is well positioned to take advantage of the upside if it continues to occur.

Steve O'Hara:

Okay. And then in terms of the -- you mentioned the-- obviously Art mentioned the big maintenance decline. I mean, if you see 80% renewal rates just for the balance of the year, might you expect kind of a similar year-over-year decline excluding any kind of unforeseen maintenance items?

Brian Kenney:

Yes, if we continue to see renewal rates above 80%, we should see lower maintenance then in 2011.

Steve O'Hara:

Okay, great. And then quickly, you'd mentioned a maintenance issue in 2013, could you briefly describe that?

Brian Kenney:

Yes, that's simply when we were talking about the bubble with Art. There is tank car structural compliance that goes on every 10 to 15 years, depending on the car type. We've had a relatively low level of that tank car compliance that's been due over the last couple of years. It's been relatively flat. It starts to ramp up in 2013 simply because of when we took cars 10 years ago. So it is somewhat of a bubble coming up, and that's why you can't definitively say maintenance won't be a little higher later in the year because you try to manage that to equalize the work in your service center. So we could be pulling some of that forward, pushing some of it out. So we try to equalize maintenance, but in general there is a bubble coming up the next couple of years on tank car compliance.

Steve O'Hara:

Okay. Thank you very much.

Operator:

Thank you. We'll take our next question from Rich Fitzgerald from Jefferies Investment. Please go ahead.

Rich Fitzgerald:

Hey guys -- had one quick question with regard to the industry cycle. The total railcar backlog has come down a bit from like a recent peak of 65,000 back in Q3. What are your thoughts on the trend in that figure from here and how do you expect that to impact GMT's business.

Brian Kenney:

I'm going to interrupt. I should let Tom answer, but I'm going to jump in because I think that's a good sign, actually, although most people may not say that. Why do I say that? Let's start with the fact that demand is still high for most of our railcar types in the fleet and pricing is increasing as you saw in the LPI in the first quarter. But one of the main threats to our business historically is overzealous investing by certain market participants and a resulting ramp up in railcar production that outpaces demand. You're starting to see a little bit of that actually in the small cube covered hopper market and that can have a really negative effect on pricing. So you have to watch that statistic because obviously a dramatic drop in backlog long term means that leasing volume will go down as well, but for right now I'd like to see the market remain disciplined and just meet demand. So I think seeing that not go up is actually a good sign that people aren't getting out of control. Tom?

Rich Fitzgerald:

Where would industry backlog have to go just as a general rule of thumb for you to start to get concerned that people were getting a little bit overzealous in your words?

Brian Kenney:

I don't know that I'd throw out on absolute number and this is where Tom should jump in. We look -- once again, the boring GATX answer, is by car type and by commodity and we're seeing -- you should discuss the small cube market as an example.

Tom Ellman:

Yes, and first of all, as Brian said it's important to take a look at this car type by car type. And at a high level, tank car backlog actually increased in the quarter.

Rich Fitzgerald:

Right.

Tom Ellman:

So as Brian mentioned, being 60% of our business, that portion of it, the fundamentals of the alternative of people looking for a new car is still very far out there, kind of in the 15-month range. So the new car dynamic and what's it doing for existing cars continues to be the same as it has been. Even on the freight car side where you've seen the backlog come down, the amount of time for most car types really hasn't changed over the past quarter. It's still, for most car types, kind of in the six-month range. And what Brian was referring to specifically with small cube covered hoppers, which carry frac sand among other commodities, is when that backlog did get out there and you had people very concerned that they could have cars to serve that market, in some cases you might have a railroad, a sand producer and an oil field services company all specing cars for the same piece of business. And we think what happened in some cases is there was actually more cars supplied than demand would justify. So although that market, the demand side of it remains very strong, we are going to see a settling out period where that supply gets eaten up and that's where Brian was talking about having the backlog come down a little and some of that potential over-ordering come out is actually a good thing for us.

Rich Fitzgerald:

Okay. Okay, I understand that. That makes sense. Is the backlog, however, over the long run still a decent proxy for the company's pricing power? The LPI and the industry backlog seemed to be fairly well correlated over a large period of time. Is that kind of still the case in the current environment, do you think?

Brian Kenney:

I like where it is today, let's put it that way. You don't want to see it dramatically low, but we don't want to see it dramatically high and it feels good where it is today.

Rich Fitzgerald:

Okay, okay. That's fair.

Bob Lyons:

Yes, I was going to say I think that answer is consistent -- very consistent with what we said at the end of the fourth quarter because we received that same question and I think Brian's response at that point in time was we like where the backlog is and we weren't eager to see a big increase in that number.

Brian Kenney:

Right. You don't want to see it get so high that the manufacturers are saying, "you know what, I'm going to open up some new capacity," and then you see new market entrants come in and say, "well this market looks attractive, let's get into it" and then things start to go south. So just, -- we like it where it is.

Rich Fitzgerald:

Okay. Okay, and then just one quick follow-up question, separate topic. The Moody's action today -- what impact, if any, do you expect that to have on the ability to raise attractive financing this year? I know you guys have some debt that you'd like to roll over the course of the year. Any comments more broadly on the Moody's move?

Bob Lyons:

Sure. Don't expect that it's going to have any access at all on our ability to access capital or the cost of that capital given the fact that Moody's rating now is equivalent to S&P's. S&P was already one notch below Moody's. And now that Moody's has come down one notch, they're still both very solid BBB ratings, investment grade ratings, so I don't anticipate any issue at all. And in fact, I wouldn't be surprised if spreads compress a little bit given that there was some uncertainty about the magnitude of the Moody's action and now that's taken care of and that uncertainty is gone. So I'm not concerned at all.

Rich Fitzgerald:

Okay, great. Thanks a lot guys, good quarter.

Operator:

Thank you. We'll take our next question from Jason Byun from South Ferry Capital. Please go ahead.

Jason Byun:

Hey guys. A lot of the company's profitability is contingent on its funding as well as its net interest margin. It seems to me that in order to maximize shareholder value perhaps something could be done to lower that cost. Have you guys considered structuring yourselves as a non-bank finance company or perhaps even go as far as to the extent of placing yourselves in alternative ownership to basically maximize that NIM, because obviously there's a lot of potential here to lower the cost?

Brian Kenney:

It is uncertain whether we qualify or we could ever achieve the non-bank holding company status or an industrial loan bank or any of those. And no, we haven't really pursued that. In fact, if you really get down into the weeds, there are some guidelines about what you can do as far as spec ordering, what you can own, what you cannot own, what you can service. So being a bank doesn't really work that well with our full-service leasing business, but of course, we always look at that stuff. As far as putting ourselves into a different ownership, we've always been clear on that. We'll do what's best for the shareholder.

Jason Byun:

Great. Thank you.

Operator:

(Operator Instructions) Our next question comes from Zahid Siddique from Gabelli. Please go ahead.

Zahid Siddique:

Hi, good morning. Thanks for taking my questions, actually I have a few. The first one, on the last page of your press release you have some rail statistics, for example, manufacturing utilization, and then you talk about the U.S. car loadings. And I noted that those numbers are down, especially the car loadings in the March quarter. Could you comment on that and what's the correlation to your business?

Tom Ellman:

Yes, as Brian mentioned, you have to go car type by car type and the majority of that decline in car loadings overall is due to decline in coal car loadings, and we touched on that a little bit earlier on the call. Some of the reasons for the overall weakening in the coal market, things like a mild winter, things like the price of natural gas and alternatives there. And also, one of the things that happens is you have a little bit of a compounding effect when loadings come down and activity decreases, railroad speed increases and you can get a second order weakening there. But as far as the major reason for the loadings decline, it's really coal is the biggest driver. You could go car type by car type in some of the other areas, but that explains the majority of it.

Zahid Siddique:

Thank you. And could you comment on the activity within the fracking? How is that progressing?

Tom Ellman:

Certainly. It continues to be a key driver overall. Probably the best way to think about it is look at two different sides. We talked a little bit earlier about what's going on with frac sand. The underlying drilling for natural gas remains strong and remains quite robust, but from a railcar standpoint right now there is an excess supply of cars which we expect to work its way out of the market in the next year or so. Another part of it that you could be referring to is what's going on in the Bakkens with crude oil. That remains extremely strong. That's a key driver and that large backlog of tank cars, probably something on the order of half those cars has to do with that part of the world in crude cars to serve that market.

Zahid Siddique:

Within the Bakken how many cars do you have in service today?

Tom Ellman:

Right now today, not that many. If you look at how many cars we have that are being produced and will go there, about 1,000 cars total.

Zahid Siddique:

Okay, great. And just last question is on the Rolls-Royce JV, how is that doing in the quarter?

Bob Lyons:

Rolls-Royce continues to perform very well -- had a very strong 2011 as we talked about at the end of the year and in the fourth quarter earnings call. First quarter no change in that trend, continuing to see very good income performance there and in incremental investment opportunity.

Zahid Siddique:

Thank you.

Operator:

Thank you. We'll take our next question from Art Hatfield with Raymond James. Please go ahead.

Art Hatfield:

Hey, just a couple follow ups. Has your thought process at all changed on where you're comfortable going to or where you're at now on your recourse leverage?

Bob Lyons:

No, it hasn't Art.

Art Hatfield:

Okay.

Bob Lyons:

Our leverage has been relatively constant the last few years despite very strong investment activity -- 2008, '09 and '10 in particular, when we took advantage of the down market to buy a lot of assets at very attractive valuations. Even with all that activity, our leverage has been pretty constant and something we continue to look at.

Art Hatfield:

Right, and I know in the past you've talked about maybe going as high as four-to-one if you had the right opportunity. Do you still think that way or do you just don't think you'll ever have to go that high?

Bob Lyons:

For the right opportunity, we're going to do what makes sense for the shareholder long term.

Art Hatfield:

Okay.

Bob Lyons:

And obviously, solid investment grade credit rating is important to us and we always consider that, but we're also very much focused on the right opportunities for our shareholders.

Art Hatfield:

And then finally, can you all comment on Europe? You've been growing that business ever so slightly over the last couple years. Can you just talk about what you're seeing in that marketplace and what the competitive landscape looks like?

Brian Kenney:

Well, sure. It's Brian. It's a very mixed market right now. We continue to see strength on the tank car business, which is owned 100% by GATX. As you know, that serves primarily petroleum and chemical markets and it's very strong right now. On the petroleum side, we have continued high utilization, strong demand for newer, higher-capacity cars. We're seeing large tenders from big customers looking to modernize their fleets. We continue to scrap the older cars and replace them with new ones, so it's very strong. It's a little choppier on the chemical side. There are some customers that are actually reducing capacity because of the European economy, but others are actually considering capacity additions, so the fleet modernization continues on that side as well. And pricing is good in Europe for the tank car side. It's low, single-digit increases all the way up to 10% or more depending on the length of the leases expiring. So that business is strong and there's a lot of growth opportunities, actually, for replacement and new business. On the other side of the spectrum is the freight car business where we have the joint venture with AAE. That business has been weak since 2009, really, when container shipments dropped 20%. It's come back a little bit, but really it's just moving sideways at this point. They're very tied to the economy. It's a very short-term business, and really the outlook is much more long term as far as that recovery, but all that's been factored into our projections.

Art Hatfield:

On the AAE business, do you have an end date where that relationship has a contractual end that you would have to renew?

Brian Kenney:

No. No. There is no end date for that.

Art Hatfield:

Okay.

Brian Kenney:

As far as the competitive landscape, Art, it's actually -- it feels a little bit like North America did a couple years ago in that that part of the market is very weak and it's questionable whether some of the competitors have staying power and whether they will invest. But we see that as a potential opportunity, especially on the tank car side in Europe.

Art Hatfield:

Okay, great. Hey, thanks for the insights.

Operator:

(Operator Instructions) We'll take our next question from Kristine Kubacki from Avondale Partners. Please go ahead.

Kristine Kubacki:

Good morning. My question is on -- you mentioned that the LPI was a little bit stronger-than-expected in the quarter, and I know in the prior quarter, fourth quarter conference call, you talked about kind of a mid-teens kind of run rate for the full year. I was wondering how should we think about the rest of the year given that it started out so strong and will we start running up against harder comps that could temper the LPI backwards a little bit over the next few quarters?

Tom Ellman:

Yes. Overall, we think that remains good guidance. As you noted, the first quarter was particularly strong, but we did talk a little bit about some of the challenges that we'll face, particularly in the coal market and when you look at what we might have to do in order to maintain our utilization there compared with a very strong portfolio overall, we think that mid-teens guidance remains good.

Bob Lyons:

Yes, and I'd add to that, Kristine, too what Tom had mentioned about coal is there's really no material impact at all on our full-year earnings expectations or earnings guidance, particularly given the strength in the overall portfolio.

Kristine Kubacki:

Is there a little bit more coal coming up for renewal then? Am I reading that right?

Bob Lyons:

More so than the first quarter.

Kristine Kubacki:

Okay.

Bob Lyons:

Right.

Kristine Kubacki:

And then in terms of total cars up for renewal this year and kind of the cadence of that?

Jennifer Van Aken:

Yes, we had about 20,000 cars scheduled for renewal for the entire year. I think we did about 4,600 of those in the first quarter. So the remainder will be fairly evenly spread out throughout the last three quarters of the year.

Kristine Kubacki:

Okay, that's very helpful. Thank you very much.

Operator:

We'll move next to Gregory Macosko from Lord Abbett. Please go ahead.

Gregory Macosko:

Yes, thank you. Just with regard -- maybe some of the smaller things with regard to American Steamship. You say you're going to 14, I guess, by the end of -- operating in 2012. Is that as planned? I know you were positive about the outlook in the fourth quarter.

Brian Kenney:

Yes, that was as planned. In general, the market -- we expect to carry more tonnage this year, more iron ore tonnage and that's driven a lot, obviously, by increase in auto sales which is looking pretty robust if you believe our customers through the first couple of months.

Gregory Macosko:

And with regard to Europe, you say there are some weaker players, etc. Have we seen any consolidation at this point or is it still to come?

Brian Kenney:

No, we haven't seen any consolidation. I just think if the market is upset enough, especially on the freight car side where it could come. Don't know anything in particular, but it just feels a lot like the U.S. did a couple of years ago.

Bob Lyons:

And I think some of that will come through attrition and displacement too as well as some of our bigger customers look to stay with lessors like ourselves who are going to be in the game long term and have modern equipment and the ability to reinvest. And some of the smaller players they may not get their portfolios bought out but they will fade away over time.

Gregory Macosko:

With regard to idle cars, I know you previously talked about construction being still weak and more than half of those idle cars were those half center beams, etc. What's the construction look like at this point? What are you feelings there?

Brian Kenney:

Well, there's been a slight uptick in construction, but nothing -- there was some activity in construction in the first quarter, but certainly nothing to get excited about from a fleet perspective.

Gregory Macosko:

Okay. And previously you've talked about the LPI being 20% off-peak for the tank car area. Where do we stand on that at this point?

Bob Lyons:

Well, I don't believe that was the LPI. We had talked about point-to-point reduction in lease rates kind of overall and particularly on the tank car side. I'd say for many car types in the fleet right now we are back at peak or above and hence that makes sense for us to begin extending -- stretching, term more and that's what you see us doing. And saw it definitely in that 55 months in the first quarter.

Gregory Macosko:

Thank you for correcting me. And with regard to pricing, etc., if you maintained the term, could pricing still be at peak? How does it feel on that regard?

Bob Lyons:

Pricing is very strong right now and we feel we're in a very good position. As I mentioned, many of the car types are at or above prior peak and we don't see that changing here in the near term. So we feel we're in a good spot both to get very attractive rates and to maintain that effort to stretch term.

Gregory Macosko:

With regard to remarketing of the cars, in the past, you've talked about scrappage being a driver of that. I would assume that scrappage is not a driver of remarketing on the car side. Is it really a price point or what's driving it here in the first quarter?

Bob Lyons:

Well, the scrap income flows through as we break out supplementals to our financials -- that comes through Other Income. And so we do break that out and during the quarter that was $6.4 million total scrap gains. That's separate from remarketing, which was about $11 million at Rail. Marketing and cars we're selling in the secondary market, most of the time with leases attached.

Gregory Macosko:

Okay.

Bob Lyons:

And that secondary market activity has been pretty solid.

Gregory Macosko:

I see. Okay. All right and then finally, when you talked previously about the frac sand business, you said that it -- I think you said last time it was kind of feeling like the methanol market was feeling some years back. Has it backed off in terms of the excitement over that? What's your sense there?

Tom Ellman:

Yes, I think you're probably referring back to the ethanol market previously. What's going on in frac sand is kind of what we mentioned earlier, the demand side remains very strong. There is an oversupply of cars right now that we expect to work its way through the system in the next year or so.

Gregory Macosko:

So in other words, there's still an oversupply, even though the demand is strong.

Tom Ellman:

Yes, right now there is an oversupply.

Brian Kenney:

Yes, demand hasn't really decreased as Tom indicated a little while ago; there's been some over-ordering, triple ordering in some cases. And that's an example, for instance, that that's why the backlog decreased this quarter -- that's great.

Gregory Macosko:

Okay. Thank you.

Operator:

We'll take our next question from Brian Hogan with William Blair. Please go ahead.

Brian Hogan:

Thank you. Question on investment opportunities: One, international -- at one point there's kind of a status on the India opportunity and then other geographies. And then second, kind of along with that, Portfolio Management investment opportunities; obviously, you had some asset remarketing fairly sized gains there. Do you see investment opportunities there because the investment volume in the first quarter was relatively light? Just kind of talk around those investment opportunities, please. Thanks.

Bob Lyons:

Let me take the Portfolio Management one and then I'll turn it Brian for India. Yes, obviously we're continuing to look very selectively to invest in Portfolio Management mostly in the inland marine and container market. And we're seeing some transaction flow there. And so I would expect volume to go up through the balance of the year. Obviously, it's never going to be a point where it matches anything on the Rail side, but if we can make very attractive good economics and accretive investments there, we will do so. And I'll turn it over to Brian for his comments on India.

Brian Kenney:

Yes, India has been a long process to once again -- a railcar leasing market does not exist in India, so we've been trying to create that along with the Indian Railways over the last couple years. There's a wagon leasing scheme that was approved in India about a year ago. We are on the verge of getting our license here in the next couple of weeks. In fact, I'm headed over there and we have customers waiting to go and we hope to be invested in 2012 in India.

Brian Hogan:

And going back to your comment on containers, what type of container investment is that, leasing containers? Is that what kind?

Brian Kenney:

See, in the European freight car market we participate through a joint venture with AAE and a lot of that fleet is dedicated towards intermodal and it carries containers. So we don't invest directly in containers in Europe. It's exposure through intermodal cars in our joint venture.

Brian Hogan:

Sure. Thank you.

Operator:

(Operator Instructions) Our next question will come from Kent Mortensen from Thrivent. Please go ahead.

Kent Mortensen:

Good morning. Can you talk a little bit about where you were kind of harvesting some of this remarketing income, like what car types?

Bob Lyons:

Well, let me take it two ways. One, we also had a solid remarketing quarter in Portfolio Management and a good portion of that was in the barge area where we had earmarked some barges that we had purchased years ago at very attractive valuations for sale for various portfolio management reasons. And on the Rail side, I wouldn't say there is any one particular category. Tom can comment more, but we usually offer -- when we offer assets for sale in Rail in the secondary market, we offer a pretty diversified portfolio of cars that again we've targeted for sale for various management reasons.

Tom Ellman:

Yes, Bob's absolutely correct. The only area that I'd say gets a little more emphasis is some of the older, smaller cars as we continually tried to keep our fleet to the modern standard.

Kent Mortensen:

So we're really not in a situation yet where you feel that -- you talked earlier about trying to sell cars where we're getting beyond -- I'm sorry you said you were extending terms in cars that were kind of getting beyond peak pricing levels. So you're not necessarily selling them.

Bob Lyons:

No, that's correct.

Kent Mortensen:

Okay. And then you'd mentioned coal being at the bottom or near the bottom. Is that an area that you'd be potentially adding cars?

Brian Kenney:

I was expecting that question. It's a good question because it's pretty close to where it was, what two years ago, when it was really depressed and that's when we added a lot of exposure by buying up troubled portfolios and I'm comfortable with that exposure. We increased that at a very attractive price similar to the price that is probably available today. So no, we're comfortable where we are.

Kent Mortensen:

Okay. And I appreciate your comments about guidance in terms of being early in the year, but you did say that the lease index was higher than you expected, that your maintenance costs were lower than expected and we're also at the end of April. So we've got one month into the next quarter already done. I guess I'm still surprised a little bit as to why you didn't tick up the bottom end of guidance. Is there a specific offset there, something that's come up since you initiated that guidance that is now causing some concern and offset to what you've achieved thus far?

Bob Lyons:

Certainly nothing has come up, Kent, in the interim or since we made that initial guidance. Again, I'd go back to -- we tend to be relatively cautious, I guess, compared to others in terms of on that front. And we're, even though it is April, we still are early in the year. And as I mentioned, in the first quarter we had $22 million of remarketing income. We expect north of $45 million for the full year, and that's dependent on the secondary market remaining solid and not all those sales are in the bank. We're confident that we'll be able to get those completed as planned, but there's still some level of uncertainty there.

Kent Mortensen:

Okay, very good. Thank you.

Operator:

We'll take our next question from Matthew Dodson with Edmunds White. Please go ahead.

Matthew Dodson:

Can you talk a little about your American Steamship part of the company and the demand environment out there and your ability to push price?

Brian Kenney:

Sure. We're going to have 14 vessels in operation this year; we expect to carry more tonnage this year -- early indications from customers make us believe that. It's driven, to a large extent, by our iron ore tonnage and that's driven by auto demand in the U.S. and with recent forecasts that 14.4 million for auto sales in 2012, that's a pretty sizable increase. I think it was more like 12.5 million last year. So that's what's driving that business. That's why we'll carry more tonnage and that's why we're relatively optimistic. As far as pushing pricing, pricing is fine. We've seen increases, but I really don't want to talk too much about pricing for that business. It's a very closely held market and it's probably not a wise idea to talk about pricing too much.

Matthew Dodson:

Thank you very much.

Operator:

And it appears that we have no further questions at this time.

Jennifer Van Aken:

All right, thank you everyone for your participation. I will be around all afternoon to answer any additional questions. Thanks.

Bob Lyons:

Thank you.