GATX Corporation

2013 First Quarter Conference Call April 25, 2013

Operator:

Please stand by. Good day, ladies and gentlemen. Welcome to the GATX first-quarter conference call. Today's conference is being recorded and at this time I will turn the conference over to Mr. Bob Lyons. Please go ahead, Mr. Lyons.

Bob Lyons:

Good morning, everybody, and thank you for joining us. As many of you know, Jennifer Van Aken, our Director of Investor Relations, is happily off on maternity leave. So in her absence Mike Maffei, our Director of Accounting Research, has been helping us out on the Investor Relations front until Jennifer's return in the second quarter. So with that, I'll turn it over to Mike, and he's going to provide a quick recap on the numbers. Mike?

Mike Maffei:

Thank you, Bob, and good morning, everyone. Thanks for joining us for the first-quarter conference call. Also on the call today is Brian Kenney, President and CEO of GATX Corporation. I'll give a brief overview of the results provided earlier in our press release, and then we'll take questions.

As a reminder, any forward-looking statements made on this call represent 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 2012 Form 10-K/A 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 2013 first-quarter net income of $27.1 million or $0.57 per diluted share. This includes the negative impact of $1.3 million or $0.03 per share diluted share from the negative change in fair value of swaps at our European rail affiliates, as detailed on Page 9 of the press release. This compares to 2012 first-quarter net income of $30.3 million or $0.64 per diluted share, which includes the negative impact from the same swaps of $2.2 million or $0.05 per diluted share.

At the end of the first quarter, the North American fleet utilization was 97.8% and utilization in Europe was 95.5%. The renewal rates in the Lease Price Index were 30.8% above expiring lease rates, and lease terms were 65 months on average for renewals during the quarter.

Our renewal success rate in North America remained above 80%, reflecting continued strong demand for tank cars. We have allocated our scheduled new car deliveries through 2014, and we're now working on the 2015 placements. It is unusual to have cars placed so far in advance and at extended initial lease terms and record rates, so we are working aggressively to capitalize on this demand environment.

On the maintenance front, as expected, we had a material increase in expense in the first quarter versus the prior year, as we continue addressing the compliance bubble we discussed on previous calls. The flow of cars into the shops to meet the required regulatory compliance will continue as the year progresses.

Lastly, rail remarketing activity was lower in this year's first quarter compared to last year. This is solely due to timing, and we expect a robust remarketing environment during the balance of the year.

The navigation season has just recently started for American Steamship Company. Based on customer inquiries, we expect to move modestly less volume in 2013 versus 2012.

As we've previously noted, the low water levels on the Great Lakes will negatively impact operating efficiency during the year. At the end of March, 10 vessels were in operation and we expect to operate 13 vessels during 2013.

Portfolio Management segment profit was down from the prior year due to the timing of asset remarketing activity, which is expected to increase in the coming quarters. Operationally, we are encouraged by continued strong performance at the Rolls-Royce joint ventures.

Also, certain ocean-going markets -- namely, the LPG and mid-sized chemical trades -- saw an uptick in charter rates. This is encouraging, especially in the chemical markets where charter rates have been at low levels for the past several years.

Overall, the first-quarter operating environment was generally consistent with our expectations and provides a good start to 2013. As noted in the press release, we continue to expect 2013 full-year earnings to be in the range of $3.10 to $3.20 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 a.m. Central Time. Slides from Brian Kenney's presentation will be posted to our website, www.gatx.com.

With that quick overview, let's get to your questions. Kelsey?

QUESTION AND ANSWER

Operator:

(Operator Instructions) We'll go first to Art Hatfield with Raymond James.

Art Hatfield:

Hey, morning, everybody. If I could start with the LPI – obviously, it can move around a little bit quarter-to-quarter, but do you think we're getting close to where that probably starts to roll over, given where your renewals will be over the next couple years?

Bob Lyons:

Well, Art, we came into the year, back in January -- you might recall my indication was that the LPI would be in the mid-20% range, where we came in last year.

Art Hatfield:

Right.

Bob Lyons:

We've continued to see a very strong lease rate environment, and that appears to provide us with some pretty positive momentum here through the first quarter and into the balance of the year.

Brian Kenney:

Yeah. I would add, tank car rates are beyond the prior peak, and they are probably better than what we expected coming into the year. The other thing to remember, Art, is that the expiring rate for that LPI actually declines in 2013 from 2012. And it doesn't exactly -- it doesn't go up dramatically at all in 2014, so still looks like there is some runway here.

Art Hatfield:

Okay, okay. That last comment was very helpful about '14. With that said, are you starting to see any pushback on price or term in any of your markets?

Brian Kenney:

Yes, I would say we're seeing a lot of pushback on term. As you know, we're pushing that aggressively --

Art Hatfield:

Right.

Brian Kenney:

-- in this strong market for tank cars. So I think that's probably most of the conversation -- difficult conversations with customers, especially on our new car orders, are really pushing term. And we're trying to incent them to go longer, so we'll actually give up a little rate to go longer term. So that is probably the most difficult conversation the sales force is having.

Art Hatfield:

Okay, then, final question and I will let somebody else go. But looking at the orders for railcars in the first quarter, really it -- I think, surprised most people how strong it was on the tank car side. Does that start to worry you a little bit, that maybe we could be getting close to a saturation point down the road? I know we continue to see capacity coming in the manufacturing side of the market. Any concerns with regards to oversupply at this point in time?

Brian Kenney:

Yeah, if you look out a couple years, I think, there is a real concern about oversupply in the crude market. There's currently, we estimate, about 25,000 to 35,000 cars out there in crude service. But with the tank car orders you just mentioned -- first of all, 80% of the freight car backlog is in tank, which is unheard of. And if you look at the tank car backlog alone, that is 20% of the total tank car fleet.

So this is all unprecedented. Most of that – there's a lot of tank cars being produced or being promised that are earmarked for crude service. So, you can see that with pipelines coming online in '14 and '15 and beyond that this market could be oversupplied out in the future, yes.

Art Hatfield:

Okay. I'll let somebody else have at it. Thanks for your time.

Bob Lyons:

Thanks, Art.

Operator:

(Operator Instructions) We move on to Steve O'Hara with Sidoti & Company.

Steve O'Hara:

Hi, good morning. Can you just talk about the number of coal cars that maybe came up during the quarter? Does that affect the LPI in 2013? And maybe if you can talk about how you're -- other than maybe pushing term and balancing your portfolio, how do you protect yourself from that potential bubble in, let's say, crude cars down the road?

Mike Maffei:

Sure, I can take the first part. We had about 1200 coal cars come up for renewal during the first quarter, with a renewal success rate of over 70% -- over 75%, sorry. We have an additional 2500 cars scheduled for renewal during the remainder of 2013; but all of those exposed cars are newer and state-of-the-art cars.

Bob Lyons:

Steve, I'd mention to you and just add to that, too -- on the coal cars, keep in mind, yeah, there is definitely pressure there on rates. And unlike the rest of the fleet, that's a car type where we're really trying to stay shorter term because we believe longer term that the equipment we have will be in a very good spot. So we're doing a bit of the opposite there from the rest of the fleet.

But I can turn it over to Brian to comment about the crude market.

Brian Kenney:

Yeah, in some ways you can never be completely insulated from that, obviously. But you mentioned two of the things we are doing.

One is going very long at these high rates; and for new cars especially long. So that's one way you can get through that period. The other one, as you also mentioned, I think, is maintaining a very diverse fleet, which we always try to do. And not just from a car type perspective, also from a customer perspective and the service the car is in perspective. The good news about the crude-by-rail boom is that it has created tightness in supply for all tank cars. So we take advantage of that. We have a very diverse fleet.

To give you some numbers, if you look at the crude-by-rail phenomenon, as I said, probably 25,000 to 35,000 cars are in that service in the industry. But we only have about 1600 currently delivered cars in that service. Yes, they will go up over the next few years, but not dramatically. So it all will be a small part of our fleet.

Then the last tactic you use -- and we're using it -- is in your sales package we maintain an active secondary market presence. And you try to get rid of older cars, you try to get rid of smaller cars, you try to get rid of cars where you might have overexposure to a commodity type or a car type. So we do that as well.

Steve O'Hara:

Okay. Then as a follow-up in terms of Europe, it looked like the utilization picked up a little bit, if I have that right. Could you just talk about the tank market and then maybe the freight market there as well, quickly?

Brian Kenney:

Sure. Utilization ticked up, but I wouldn't get excited about that. It was very small and there was a lot of scrapping in the quarter. Talking about Europe in general, as you know we participate in two ways. On the freight car side it's through our joint venture in AAE Cargo, where we have a 37.5% interest; very short-term lease business, concentration in intermodal cars. That's highly dependent on container traffic and obviously the European economy. That business turned down sharply in 2009 and, honestly, it has been bumping along the bottom since then, with very little improvement, and we don't expect that weakness to improve anytime soon.

On the tank car side, that's our 100%-owned fleet of about 22,000 tank cars in Europe. It's performed very well through the downturn. That market weakened in the second half of 2012, especially in the chemical side. We saw the return of older and smaller cars, and those cars generally just get scrapped. But now we're starting to see some weakness on the petroleum side as well -- that is about 70% of the business over there. We also have cars, new cars, delivering into that market.

But despite that, GATX Rail Europe has performed very well through this weakness. They're replacing their newer cars. They're essentially helping their customers modernize and upgrade their fleets by replacing their old cars with our new ones. They actually realized rate increases over the last couple years despite the downturn. So it is definitely a rockier market on the tank car side in Europe, but they perform very well and we think they will in 2013.

Steve O'Hara:

Okay. Thank you very much.

Operator:

We'll now hear from Mike Baudendistel with Stifel.

Mike Baudendistel:

Thank you. I guess the one question is on the American Steamship Company. I think you said you're going to move or expect to move modestly lower volume in 2013 relative to 2012. Is that because the demand is going to be less, or is it the low-water conditions, or a combination of both?

Bob Lyons:

Well, we moved about just under 30 million tons last year and modestly lower with – we're talking a very small amount, maybe in the million-ton range for an expectation in 2013. So it's not a dramatic change in tonnage. But it is coming out, and it will likely come out of iron ore, which tends to be our higher-margin move.

Mike Baudendistel:

Okay.

Bob Lyons:

And, yes, some of that would be based on current customer feedback regarding demand levels. There's also some competing capacity in the marketplace for the tonnage that is available. Water levels, yes, we've talked about previously will continue to be a challenge, despite all of the rain we have had here in the Midwest in the last 10 days, which should help. Certainly not for those who were affected by it, but it will help water levels on the Great Lakes. But we're still anticipating more of a challenging operating environment there this year due to that fact.

Mike Baudendistel:

Okay, great. That's helpful. On the Lease Price Index, I guess mid-20%s this year, similar to last year. When you compare the leases that were coming off this year versus last year, are the ones that are coming off at a higher rate this year? Does that make sense? So does the Lease Price Index have a more difficult comp than it did last year?

Brian Kenney:

No, it has an easier comp. They actually came down a little bit from 2012.

Mike Baudendistel:

Okay. The ones that --

Brian Kenney:

The expiring rate is lower in 2013, scheduled, than it was in 2012.

Mike Baudendistel:
Okay.

Bob Lyons:

And that's, as I mentioned before, in 2014 -- about the same.

Brian Kenney:

Yes, I mean you never know. You have got to see what you do this year in terms of your renewals, which helps determine 2014, but looking at the beginning of 2013 and 2014, it didn't look significantly higher.

Mike Baudendistel:

Okay. Your comment on 2014, that -- the ones that are expiring in 2014 are going to be similar to 2013 or --

Brian Kenney:

Scheduled to, but we have to see. For instance, Bob mentioned we're going very short in coal and some other car types, so that will also impact 2014. So we'll see as we go through the year; but looking a year ahead it didn't look dramatically different, no.

Mike Baudendistel:

Okay. That makes sense. Then the utilization rate on the North American cars stayed fairly high, pretty consistent with the previous quarter. Is it safe to say that some of the cars that are -- the freight cars, maybe coal and some other things, the lease rates are declining and you accepted somewhat lower rates in order to keep the utilization high? Is that the strategy there?

Brian Kenney:

In coal, you're just trying to keep the cars deployed, and rates are down from a year ago. In other car -- it really depends on the car type once you start talking about freight. It is not the same as tank, where it's strong across-the-board. So, for instance, small cube covered hoppers is a good example of a car type where the rate was declining last year and they're actually looking a little better this year because there's higher demand for frac sand. Grain cars is another example of a car type that was weak last year; still is weak, but with a better harvest this year we're cautiously optimistic those rates will go up. So you really have to go car type by car type when you talk about freight.

Bob Lyons:

Mike, I would add on the coal front, too, we mentioned earlier that our renewal success rate in the first quarter was over 75%. That's better than what we had anticipated, but we are being very aggressive there on rate and staying short term.

Mike Baudendistel:

Good; that's helpful detail. Then just one final one for me -- the maintenance cost expectations that you had going into 2013, have those developed in lines with your expectations?

Brian Kenney:

I would say it has in North America. Our net maintenance cost was up about 13% in the quarter. That's just a higher -- as we predicted, a higher volume of cars coming through our major shop due to compliance work on the tank car side.

In Europe, it was actually down year-over-year. More cars were scrapped in Europe and avoided revision cycles because the market is a little weaker. So we didn't anticipate that necessarily coming in. But I still think looking ahead for this year, I had mentioned at the end of the year it would be up around 10% -- that still looks like a good number.

Bob Lyons:

Yes, and I'd point out, too, it is important to make sure -- now that we do break out North America and Rail International separately -- the compliance issue is primarily a North American issue. So when you're looking at the quarter-over-quarter or sequential change in maintenance expense, as we've talked about, that 10% number really pertains to the North American number.

Mike Baudendistel:

Okay, great. Thank you.

Operator:

Our next question will come from Matt Brooklier with Longbow Research.

Matt Brooklier:

Hey, thanks. Good morning. So I wanted to circle back to an earlier comment and try to get a feel for your North American fleet and what percentage of the fleet is currently in crude service. I heard a 1600 railcar number but I just wanted to dig in a little bit deeper here.

Mike Maffei:

That's right. We have about 1600 railcars currently in crude service.

Bob Lyons:

And of the scheduled deliveries we have --

Mike Maffei:

We have another 1100 scheduled for delivery that are going to be headed for crude service.

Matt Brooklier:

Okay. Of the 1600, are these various types of tank cars? Are they general service, and also maybe some of the coiled and insulated? And then also some of the plus-31,000-gallon heavy steel equipment? Maybe talk a little bit about what is in that (technical difficulty)

Brian Kenney:

Sure. You're breaking up a little bit there. It is all three of those. I would say that the new 31,800 that the industry is producing, we don't have a whole lot of those. We're being cautious about that car type given the regulatory concern about it and how it might change that design over time. But it's all three of those, yes. We have coiled and insulated cars, mainly serving the rougher climates up North. We have the general service tank cars as well in that service. So it's well distributed and with customers, as I said earlier, customers -- the type of service that it's in.

Matt Brooklier:

Okay. Then I guess with the scheduled deliveries and holding the fleet count or assuming it's flattish at 109,000, that would suggest that you're getting a little bit heavier -- not doubling, but a little bit heavier in terms of your exposure to crude. Do you -- is there a potential to, I guess -- if we're still in a strong environment, maybe six months down the road to grow the fleet a little bit more, or potentially even transfer assets that are maybe in ethanol service over to crude? Or do you want to -- I guess, are you more cautious on your outlook for that particular service?

Bob Lyons:

Brian has a comment here too. But, before moving on to that, Matt --

Matt Brooklier:

Sure

Bob Lyons:

I would just point out that even at 2500 cars roughly or so, or 2600 once the next ones are delivered, that is on a fleet of 109,000 cars. So the percentage basis is still relatively modest.

Matt Brooklier:

Right.

Bob Lyons:

On the Trinity order that we placed, too, I'd point out that given the demand, very strong demand for tank cars outside of crude service, the vast majority of cars we've taken delivery of in that program have been into service other than crude.

Matt Brooklier:

Right.

Bob Lyons:

We have put some in, definitely. But we've seen good demand across-the-board in other commodity types. So, if Brian has anything to --

Brian Kenney:

Yes, it is about 2100 cars with a supply agreement out of the, say -- we are in our third year here, winding up our third year this summer of deliveries, so that will be 7500 cars delivered -- about 2100 have gone into crude service. As far as doubling down in the crude service, you've heard our caution earlier about the potential oversupply. It's not that we wouldn't consider it. But if we ever consider an investment like that, it will be with our best customers and it'll be very long term.

Matt Brooklier:

Okay. Then maybe we talk about non-crude tank cars and maybe just provide some commentary in terms of the supply-demand fundamentals for other equipment type outside of crude. Has there been a change or pickup in other railcar categories?

Brian Kenney:

Strong car types are primarily in the crude service and anything touching petroleum. But high-pressure cars are in high demand as well. It's really across-the-board in tank because of the limited supply. When you're sold out, all the manufacturers are going into mid-2015; obviously that produces a very strong market for all tank car types.

Matt Brooklier:

Right, but just -- I guess outside of tank cars, maybe you can talk a little, if there's been any shift or change in terms of demand for non-tank car equipment in first quarter.

Brian Kenney:

Like I said earlier, small cube covered hoppers are seeing an uptick in frac sand demand. Grain cars, assuming it's a better harvest this year, you should see those perform better. Centerbeams, which is probably the weakest part of our fleet over the last few years, was actually seeing an uptick in demand because of construction activity. Also some attrition of boxcars is driving centerbeam demand, so that looks better. Although we wouldn't call it a strong market, it's definitely much better than it was a year ago.

Matt Brooklier:

Okay.

Brian Kenney:

Those are the three that come to mind.

Matt Brooklier:

Got you. Okay, thank you for the time.

Operator:

We'll now go to Steve Barger with KeyBanc Capital Markets.

Steve Barger:

Hi, good morning. Can you talk about pricing for new tanks in the quarter, given the new demand? Has pricing moved past whatever the high-water mark was in 2012?

Brian Kenney:

Absolutely. More specifically, beyond the high mark of the prior peak in 2008.

Steve Barger:

Okay. You said you would only go into crude with great customers on very long terms. But really, how likely is that? Are there just lots of lessors out there who are willing to do deals on terms that aren't attractive to you? Or are you seeing more of those orders come from shippers or speculators?

Brian Kenney:

That's a good question. There are more shippers ordering tank cars, definitely. Some of the big refiners and the very big customers out there are also buying cars, and that shows you the payback on those investments. As far as what we would – we've got to see what -- how this develops over the next couple of years. But like I said, it is very unclear in 2015 and beyond what will happen to crude-by-rail. Right now, it's 700,000 barrels a day, at the end of 2012 as far as crude oil movements by rail in North America; and that's projected to go to 1.2 million in 2014.

But as those pipelines come on -- and there's a variety of pipelines, but really what we're talking about is Keystone XL and Pony Express, in particular. If they come on in 2015, there could be an oversupply situation. Now, there's a lot of other factors besides pipeline construction; there's levels of crude production, new discoveries, planned rail capacity, tank car production, railroad velocity. There's a lot of factors that affect crude-by-rail. But the fact is, a pipeline, once built, is 35% to 45% more efficient in transporting crude; and you can't lose sight of that fact.

Steve Barger:

Right, right.

Brian Kenney:

So that's why we are going to do what we always do in all these situations. We did it during the ethanol boom and every other boom out there -- is we're going to use that strength to maintain a very diverse fleet from the perspectives that I talked about earlier.

Steve Barger:

Just given how strong these prices are, and if you're on the assumption that things change a couple of years out, do you talk more about selling some of your own existing fleet into the secondary market on an opportunistic basis?

Brian Kenney:

Yes, we are constantly in the secondary market. And yes, sure, we'd offer -- we always offer cars that we think are at peak pricing and performance. But especially where we might have a little higher exposure in a certain area, like I said, whether it be equipment type or customer type or even credit versus where we'd like to be. So that is what you always use a strong market for.

Bob Lyons:

Steve, if you recall, we had an active year last year in terms of selling cars out of the North American fleet. We will again this year. But in general, that is a pretty diverse pool of railcars that we're selling.

Steve Barger:

Right, and last question. You talked about this a little bit, but pent-up demand for non-crude cars, are you seeing any shippers or traditional buyers of cars that are just unable to find non-crude capacity? And I guess how tight is that market, if there's any more detail you can give?

Brian Kenney:

Well, yes, it is very tight because most of the cars that are being produced are going into crude service. I will – there's nothing that really that sticks out in terms of another segment that's driving tank car demand. It's just the general shortage of cars well into 2015; so it's a good market for all tank car types as a lessor.

Bob Lyons:

Yes, and as you know, Steve, anybody who wants to -- even if they want to order cars for non-crude service, they have to – they're in the queue, which now extends pretty far out because of all those cars that are focused on crude.

Steve Barger:

Right, okay. Thanks very much.

Operator:

Our next question will come from Kristine Kubacki with Avondale Partners.

Kristine Kubacki:

Hi, good morning. I was just wondering on the re-marketing side, you obviously said it was going to pick up over the next three quarters. But I just wanted to make sure. In fourth-quarter conference call you talked about a level that was around $65 million and what you did last year. Are you still thinking that we'll see that pace for this year, in 2013?

Bob Lyons:

Yes, Kristine, no real change in the full-year outlook. If you recall last year was more heavily weighted in the first half of the year. That is just -- there is no magic to that. It is really just driven by the timing and number of transactions we have in the marketplace. So, it looks this year that it will be a little bit more balanced, potentially a little bit more heavily weighted towards the middle part of the year.

Kristine Kubacki:

Okay. That's helpful. Then on the maintenance side, forgive me if you've answered this, but you talk about the maintenance bubble, and I believe you just said that it was running in your expectations for this year. Is it a 2013 phenomenon? Will it bleed into 2014? How should we think about that in terms of duration?

Brian Kenney:

Yes, it's a good question. It starts in 2013. It gets higher in 2014, and this is based on our current projections. Obviously, it changes as we buy and sell cars. But looking from the beginning of 2013, looking ahead, it increases significantly in 2013 because of compliance events. It increases even more in 2014. And then in 2015 it would probably come down to the 2013 level, and then it starts to come down after that.

Kristine Kubacki:

Okay. That's helpful. Then just -- not to beat a dead horse, but on the operating efficiency at ASC, I was wondering. Can you give us a little bit more how, on a percentage basis, at current water levels what the hit would be on an efficiency standpoint?

Bob Lyons:

Sure. We've indicated before that for roughly each inch of decline in water level -- and this is particular -- I'd say the biggest driver is the water level at the Soo Locks, where the majority of product moves either to or from. At one point, it makes its way through the Soo Locks and a 1-inch drop can be anywhere between a couple hundred thousand to upwards of $400,000 of additional or lost revenue. So it's material. Each drop, each 1-inch drop, is significant. And in the Soo Locks this year, coming into the year, the Army Corps of Engineers was expecting that to be down about 9 or 10 inches versus last year. If you recall, the major part of that decline in water level happened really late in 2012, so we're feeling the full effect of that, or expect to, this year.

Kristine Kubacki:

Okay. That's helpful. Thank you very much. I appreciate the time.

Operator:

James Ellman with Ascend Capital has the next question.

James Ellman:

I was hoping you could just give us a little bit of insight into your concerns that there will be an oversupply of tank cars in a couple of years. Just with the significant amount of CapEx that seems to be going into crude tank loadings rather than building pipelines right now, one would imagine in a couple years there'll be more demand and lower friction costs of moving crude by rail. Then also as we are getting more natural gas that is somewhat trapped near wellheads from fracking and relatively cheap natural gas, doesn't it lead to more chemical industry output?

And finally, if GDP in terms of growth is relatively weak right now and is a bit better in two years, doesn't that just result in a greater demand for tank cars? So those seem to be strengths. If you could just tell us a little bit about your concerns about why there would be weakness or too many cars in a couple of years.

Brian Kenney:

Too many cars in crude service is the risk in a couple of years. So on the chemical side, you're exactly right. The low price of natural gas and the abundance of natural gas discoveries is obviously leading to -- instead of chemical manufacturing capacity, exiting North America as it has over the next last few decades, there is something like 70 to 100 plants that are under construction or at least on the board. And so that should lead to more tank car demand, absolutely. Different railcar type. The crude oil right now, the one it travels in, is that 30,000-gallon, non-coiled, non-insulated, general service tank car. Different car type for a lot of these chemical types.

So when I talk about the potential oversupply in a couple of years, or at least being unclear about how much is going to be needed, it really has to do with the pipelines coming online and once they are built they will take capacity away from crude-by-rail, because they're 35% to 45% more efficient. In addition, if you look at all the tank cars that are out there and ordered, it is more than sufficient to satisfy that demand if they were all to go to crude. So there is a concern about overcapacity in crude by rail. The chemical outlook, although it hasn't really materialized yet, we agree with you; that should be a very -- it should be a bright spot in a couple of years.

James Ellman:

All right. Just some thoughts about GDP growth being better in a couple of years than it is right now?

Brian Kenney:

That would be good for our entire business, I agree.

Bob Lyons:

Across the board.

James Ellman:

Very good. Thanks so much for the time.

Operator:

We'll now hear from Kent Mortensen with Thrivent.

Kent Mortensen:

Good morning. In terms of the cars sold in the quarter, I understand that it's lumpy, but it's one of the lowest I have seen in years. And especially if you're thinking that the crude situation might be getting a little frothy, I guess I was just a little surprised it was quite so low. On the other hand, the scrappage side was higher than it has been at least in the last year and a half or so. Can you just comment on those two numbers and just give us a little bit more clarity there?

Bob Lyons:

Sure. On the remarketing side in terms of cars sold, you're right. It was a low number during the quarter. That is driven by nothing other than timing of when packages went to the marketplace and when we anticipate or when we will be closing on those sales. And again, these are not just crude cars that are being sold. We're selling from across the portfolio in very targeted asset classes for the reasons that Brian mentioned before. So, the packages typically go out in fairly large buckets, and we do the right economical thing in terms of when we try to close transactions. So there's nothing of issue there. You'll see a more -- a larger number as the year progresses.

Kent Mortensen:

Do you expect first half to equal second half roughly, or will it be lumpier than that?

Bob Lyons:

I think it's going to be a little bit lumpier than that. And I am always hesitant to try to pin that down too much, Kent, because at the end of the discussion here what we want to do is the right economical thing.

Kent Mortensen:

Right.

Bob Lyons:

And not try to hit a particular quarterly number for sales of cars or gains, what have you.

Kent Mortensen:

Fair enough.

Bob Lyons:

In scrapping, again, yeah, it was a higher number than what we have seen the last few quarters, but nothing out of the ordinary there. Just when we can get cars into the -- through the system for scrapping.

Kent Mortensen:

In terms of that rate for the year, what would be a good number to use?

Bob Lyons:

Well, you know, last year --

Kent Mortensen:

About 2,000?

Bob Lyons:

Yes, we scrapped about 2,000 cars. We'll be in that same range this year.

Kent Mortensen:

And the 4500, is that still a good number for the year for cars added?

Bob Lyons:

Much of that will depend on what happens -- our ability to actually buy cars in the secondary market or any new incremental orders that we place. So we'll be taking 2500 cars from the scheduled program from Trinity. Everything else will be incremental to that. We'll be opportunistic. So certainly we would – we're hopeful to find the right opportunities in the right areas that we can put some additional capital to work in the secondary market. But some of that remains to be seen. It's really dependent on what's available.

Kent Mortensen:

Okay, so that 4500 might be on the high side and 2500 would definitely be the base; somewhere in between, perhaps?

Bob Lyons:

Yes, 2500 -- can't get less than that, given the scheduled deliveries. But we're always looking for opportunities to add cars. And sometimes, just like when we're selling cars, it can be lumpy.

Kent Mortensen:

The cash is building up on the balance sheet. I think you're over $300 million right now. What are you thinking about with regard to deploying that cash?

Bob Lyons:

Yeah, again, that was a bit of a timing issue. We did a sizable debt offering in the first quarter that -- we actually went into the market to do a $250 million five-year deal; and if that's all we had done our cash balance will be a lot lower than it is today. But the demand for that offering was incredibly high and we saw very good interest in doing -- tacking on a 10-year. So we put on a 10-year on top of that also for $250 million. So we've essentially pre-funded a little bit of the rest of the year's funding needs. We do have debt maturities coming up through the balance of the year. So if CapEx plays out the way we think and maturities get taken care of as scheduled, we wouldn't really need to be in the market again this year, whereas normally, absent that one additional 10-year issuance, we would have done another one late fall, probably.

Kent Mortensen:

Okay -- just a housekeeping item. Under ASC, I didn't see a depreciation number in the press release.

Bob Lyons:

That's correct.

Kent Mortensen:

Okay.

Bob Lyons:

Yep, it is accrued and then expensed over three quarters of operations.

Kent Mortensen:

Got it. I'm sorry. Okay, I missed that. Great, thank you.

Bob Lyons:

Thank you.

Operator:

We have no further questions at this time, Mr. Lyons. I will turn the conference back to you for closing or additional remarks.

Mike Maffei:

Thanks, everyone, for your participation. I will be available this afternoon to answer any additional questions. Thank you.

Operator:

Thank you. Again, ladies and gentlemen, that does conclude our conference for today. We thank you all for your participation.