GATX | GATX Corporation

2015 Third Quarter Conference Call **October 22, 2015**

Operator:

Good day and welcome to the GATX Third Quarter Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Chris LaHurd. Please go ahead, sir.

Chris LaHurd:

Thank you. Good morning, everyone, and welcome to the GATX Third Quarter 2015 Earnings Call. I'm joined today by Brian Kenney, President and Chief Executive Officer; Bob Lyons, Executive Vice President and Chief Financial Officer; and Tom Ellman, Executive Vice President and President of Rail North America. I'll provide some prepared remarks to supplement our earnings release distributed earlier this morning and then we'll open it up for Q&A.

Before we begin, any forward-looking statement made on this call represents our best judgment as to what may occur in the future. We've 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 2014 Form 10-K for a discussion of these factors. You can find this report as well as other information about the company on our website, www.gatx.com.

Today, GATX reported 2015 third quarter net income of $39.5 million or $0.91 per diluted share. This compares to 2014 third quarter net income of $51.3 million or $1.14 per diluted share. Year-to-date 2015, we reported net income of $147.1 million or $3.33 per diluted share. This compares to net income of $146.5 million or $3.18 per diluted share for the same period of 2014. Third quarter 2015 and year-to-date results include a net after-tax loss of $26.6 million or $0.61 per diluted share related to our decision to exit the majority of our marine investments within Portfolio Management.

Now for a few comments on each of our segments. Rail North America had an excellent quarter with fleet utilization of 99.2% at the end of the third quarter. During the quarter, the renewal rate change of GATX's Lease Price Index was 25.6%. GATX's LPI continues to be weighed down by a lackluster coal market. The average renewal term for cars in the Lease Price Index was 60 months. Year-to-date, our LPI was approximately 36%, in line with our expectations entering this year.

Demand for our key car types remain solid. In particular, cars serving the chemical, food, aggregate, and fertilizer markets are seeing stable demand.

As we indicated in prior calls, tank car renewal lease rates and terms have backed off the historical peaks experienced in 2014 and early 2015. In addition, as noted in the press release, in the tank car market, we are seeing more broad-based softness and competition for new car placements and renewals. This environment is consistent with our expectations. We have positioned our fleet very well with the majority of our cars locked up on long-term leases at attractive rates thereby providing a record level of committed lease revenues.

Demand for the boxcar fleet continues to be extremely high with utilization at 96.6% at the end of the third quarter. Due to normal transactional activity, this fleet experienced a slight reduction in utilization quarter-over-quarter. We expect utilization to be higher in Q4, based on anticipated leasing activity.

The secondary market for railcars continues to remain active. Rail North America's asset remarketing income was $10.5 million during the quarter. There is no change in our expectation that full-year remarketing income will be in line with 2014 numbers.

Within Rail International, GATX Rail Europe continues to benefit from solid demand and quick placement of their newly-built tank cars. GATX Rail Europe invested more than $38 million in the third quarter.

At American Steamship Company, a decrease in iron ore volumes resulting from reduced steel production in the Great Lakes region continues to negatively impact segment profit. Favorable weather conditions, high water levels and spot cargoes have allowed ASC to partially offset these macroeconomic headwinds.

The strategic decision to exit our marine investments within Portfolio Management resulted from two major factors: earnings volatility consequences of our ocean-going vessels and the fact that both ocean-going and inland marine investments are non-core to GATX. This sale will allow us to focus more of our attention on our core business which is railcar leasing and services. The sale process of these investments began in the third quarter and will largely conclude in the fourth quarter of 2015. Elsewhere within Portfolio Management, Rolls-Royce & Partners Finance affiliates continues to post excellent results.

Finally, GATX repurchased over 915,500 shares for approximately $43 million during the third quarter. At the end of the quarter, there was $14.4 million remaining under our $250 million repurchase authorization.

With that quick overview, Brian, Bob, Tom and I are ready to take your questions. Thank you.

QUESTION AND ANSWER

Operator:

Thank you, sir. [Operator instructions] And we will take our first question from Matt Brooklier from Longbow Research.

Matt Brooklier:

Hey, thanks, good morning. So just a question on your average renewal term on the North American fleet. It had been contracting for the past two consecutive quarters and then you had a nice move up in the third quarter, so I'm just trying to get a sense for what drove that change.

Tom Ellman:

Yep, for the most part, most car types are well above historical averages. So we have been trying to lengthen lease term on the majority of the fleet for quite some time, including this quarter. Quarter to quarter, you will have some variances in which particular renewals come up. And in quarters where you have more coal or the exception car types that we're trying to go a little bit shorter, you might see that dip a little bit, but the overall trend -- you shouldn't think of anything different in terms of what we're trying to do. We continue to try to lengthen lease term on most car types.

Matt Brooklier:

Okay. But I guess, moving up to 60 months was more of a function of doing the lesser term cars versus getting -- extending lease on some of the healthier car types; that a fair way of thinking about it?

Tom Ellman:

Yep, you shouldn't think about it as the terms on the strong cars were particularly longer than in the past.

Matt Brooklier:

Okay. What are your thoughts on regulations and impact on the market? I'm just curious to see if there's been any movement in terms of flammable service tank cars, customers trying to position themselves. Have you seen customers starting to take action with respect to potentially replacing cars or retrofitting cars? Just trying to get an update here.

Tom Ellman:

Yeah, we really haven't. We haven't seen much of anything in the way of customer requests to retrofit cars. In terms of new cars, we haven't received any inquiries for new cars to move crude oil. We are starting to see some of the ethanol players make inquiries. We have not closed any new business in that area. But overall, in terms of any kind of anticipated flurry of activity in the wake of the regulations, we're not seeing that.

Matt Brooklier:

Okay. I guess -- do you have expectations that potentially things do pick up I guess next year? I mean, the first mandate deadline is ’18 and there's still, even with crude correcting, a decent amount of crude cars in service at this point in time. So I'm just curious if you have a feel for potential kind of timing when we could see retrofits or maybe a greater level of replacement activity? Thanks.

Tom Ellman:

Yeah, so first of all, in terms of GATX, we've said before that we are very unlikely to retrofit any legacy cars and that remains true. In terms of what we might retrofit on our own fleet, what would you be most likely to see is the CPC-1232; what are called the good-faith cars, cars ordered after October 2011 that are jacketed because that retrofit is fairly modest in cost, maybe $3,000 to $5,000. But we only have about 1,800 of those cars and the deadline isn’t till 2025. So you'll see that on a pretty elongated basis.

In terms of others, for crude oil cars, it's hard to say what will ultimately happen but right now, there appears to be an adequate supply of cars in the industry so we don't anticipate a lot of near-term order activity in that area.

Matt Brooklier:

Okay. Thanks for the time.

Operator:

And we’ll move now to Justin long with Stephens, Inc.

Justin Long:

Thanks and good morning, guys. You mentioned more of a broad-based slowdown in tank car demand. Is there anything you could share to just help us understand the order of magnitude, maybe what you've seen in terms of market lease rates and how they trended sequentially into the third quarter?

Tom Ellman:

Sure. So first of all, important to note that in any historical context, the tank car market remains very strong, well above long-term rates, which is why we mentioned earlier we continue to try to lengthen lease term on most car types. Having said that, we are seeing rates come down from the very recent extremely high levels. And in the last year or so for non-flammable tank car types, probably on the order of 10% to 15% decline in lease rates.

Justin Long:

Okay. Great. That's helpful. And then I wanted to ask one about selling the Portfolio Management assets. How should we think about the potential use of proceeds from that? Are there attractive opportunities in the rail sector right now? Would you consider a step-up in buybacks? What are the things you're considering?

Brian Kenney:

Well, all that -- this is Brian, Justin -- all that is on the table. I mean as you know, we always work to maintain that right balance between investing in the business and returning capital is our track record over the last nine or 10 years; so we've invested billions in the fleet. And we've paid over $500 million in dividends, had over $700 million share repurchase, and we want to maintain that balance going forward. But as far as what lever you pull harder, it really depends on where you are in the cycle and also how your balance sheet looks.

So, for example, last year's been a very strong railcar market. You've seen us accelerate the dividend increase, you've seen us repurchase shares. Because aside from that boxcar transaction, it's been difficult to find attractively-priced new railcar investments in such a hot market. Now if this market is headed down or continues down, my expectation is we'll pull that investment lever harder as railcar prices drop, other lessors struggle and lose interest, and we'll see more value investment. So, we are going to continue to maintain that balance, but depending on where you are in the cycle, that'll tell you what we're going to do.

Bob Lyons:

And Justin, just to frame up the magnitude there, too, it's a good question. So as those assets are sold, some already were sold in the third quarter and more will go in the fourth quarter. There may be some carryover into 2016, but we're probably looking at cash proceeds spread out over that time of – in the range of $250 million.

Justin Long:

Okay, great -- that's helpful. And Brian, maybe to just build on your point that you just stated -- that you think the market could become more attractive if we see this weakness in railcar orders and demand continue. Just going back historically, how long -- and just looking at prior cycles, how long does it typically take for valuations in the market to kind of become more attractive in an environment like this where we're seeing a moderation in demand?

Brian Kenney:

Yeah, last time we started to see the market turn down in 2007. Our results were still at a record level in 2008 even though the market was declining pretty quickly. By 2010, you started to see the heavy investment by GATX in some bankrupt fleets like in the old Babcock fleet, and some others. So it generally took about two years for railcar prices to get at a very attractive level.

Justin Long:

Okay. That's really helpful. I'll leave it at that. Thanks, guys.

Operator:

And we'll go now to Steve O'Hara from Sidoti & Company.

Steve O'Hara:

Hi, good morning.

Bob Lyons:

Hi.

Steve O'Hara:

I was wondering if you would maybe touch on the GE Rail transaction and maybe how it maybe compares or contrasts to your portfolio and maybe what you think of it.

Brian Kenney:

Okay. This is Brian. I can take that. I mean, I can tell you what we can see from Umler, the public industry database, that if you try to compare the two fleets, they're really not that comparable. You can see from that database that GE has a higher percentage of coal cars, small-cube covered hoppers, center beams, plastic pellets, some cars that are more volatile and challenging in an industry downturn. GATX obviously has a much higher percentage of tank cars and they have historically been less volatile and produced a higher rate of return and have been more valuable assets. So, I would say -- while we have a very diverse fleet, I would say it's not really a comparable fleet to the GE fleet.

Steve O'Hara:

Okay. And then, I mean -- so I mean, I guess that would maybe lead one to believe that maybe the valuation for GATX might be more favorable, I guess. And then --

Brian Kenney:

Well, it's a radically different asset base, I mean not only from a fleet composition but we also run other businesses. So, in addition to the rail fleet being just a different type of investment, we have businesses beyond North American rail; best example being Rolls-Royce, which has a very low book value and a very high equity value. Direct value comparisons are just not very helpful in relation to that recently announced sale.

Steve O'Hara:

Right. Thank you. And then just in regards to the sale and Rolls-Royce. I mean, does this help maybe highlight that -- the impact on your financials at all or is it -- does that not change? I don't know if that was -- I think the way you reported is kind of below the line anyway, but -- so maybe it doesn't have an impact but maybe alleviate some of the pressure within the Portfolio Management business to begin with.

Bob Lyons:

Well, I think from the standpoint of understanding what's within Portfolio Management, this certainly should clarify things once we get the marine sales all cleaned up. And obviously, we're working on that. We do provide quite a bit of information in the 10-K as we have over the course of the last couple years with expanded disclosure on Rolls. We do want people to know the value of that business and the power of what we have there.

So we have enhanced our disclosure within the K -- there's a couple of pages in there solely dedicated to Rolls-Royce and laying out what its income contribution is. So we'll continue to do that, but certainly as the marine portfolio goes away here in the near term, Rolls will be much easier to pick up just off the face of the income statement on that Portfolio Management segment.

Steve O'Hara:

Okay. Thank you. And then just one last one. I think you guys have an order that the railcar maybe kind of finishes up and then you have another one that starts again, I believe, around the same time or maybe within six months or so. I mean, does the -- and I think there's some -- maybe a little bit more ability to negotiate the terms of that than maybe the last time. But I'm just wondering, does the -- maybe the turn in the cycle make you less apt to continue in that order, because you think you possibly might see something in the marketplace that would be more attractive, or maybe the valuations would be better? If you could just talk about how you think about that. Thank you.

Tom Ellman:

Yep. So I'll start and if others want to jump in. So just to remind you of the way that deal works. We entered in an agreement in 2011 that terminates in July of 2016. That was for 12,500 cars and we have placed over 12,000 of those already. So, that deal is nearing its completion. We extended the deal beginning in August 2016. So we continue to take delivery of cars on an uninterrupted basis.

The fundamental reason for that is we have significant demand for railcars, particularly tank cars, to replace our own fleet. So in any market environment, there is significant demand that comes from our existing fleet. As far as the way that deal works, there's some ability to -- for the conditions to change beginning in January of 2018, so we still have some distance to go before we get there.

Steve O'Hara:

Thank you very much.

Operator:

And we'll go now to Mike Baudendistel with Stifel.

Mike Baudendistel:

Thank you. Just wanted to know on the marine assets that were sold, what makes those non-core relative to other assets that are in Portfolio Management that you consider core?

Bob Lyons:

Sure. Well, I think the key component is when we talk about the Rail business and even within Rolls-Royce, you can see assets that are long-lived, widely used that we understand extremely well and where there's a service component associated with those assets.

The marine assets, by and large, tend to be more passive investments. We're not providing any service. And, for example, on the inland marine, those assets have been very good stores of value and very good performers over time for GATX. But competing for new business there is really a low cost to capital and it's been an incredibly aggressive market the last few years, where we see yields being bid down to levels that are unattractive for GATX. So our ability to grow that portfolio is limited. The assets are great. We'll realize nice value for them. But in terms of an area to focus on and try to grow in the future, that doesn't -- it's not a good use of our resources.

Mike Baudendistel:

Okay, that's helpful. And then just thinking about the mix on the model, just how much were those assets contributing on a revenue or operating income basis?

Bob Lyons:

Yeah, from a segment profit standpoint, we'll just kind of start there and keep it real simple. There's essentially a breakeven proposition today when you balance out the income contributions from the inland side with some of the losses that we've experienced on the ocean-going side. Net-net, once everything is sold, we'll see a positive contribution, but relatively minor from the exit.

Mike Baudendistel:

Okay. And then the last one for me is, you're not going to talk about the LPI for 2016 until about a quarter from now, but I just -- when we think about the comps that in 2016 -- the leases that are coming off of lease and they're going to have to be repriced, do the comps get more difficult there when we get into '16?

Brian Kenney:

You mean in terms of expiring lease rates?

Mike Baudendistel:

Yeah, exactly, in terms of expiring lease rates when those were last priced.

Bob Lyons:

Yeah. We'll get into more details on that when we get into the January call. But the logical progression with that would be we probably move up a little bit in terms of the average expiring rate versus 2015.

Mike Baudendistel:

Got it. Thank you.

Operator:

And we'll take our next question from Art Hatfield from Raymond James.

Art Hatfield:

Hey, morning, everybody. I hope you can hear me fine. Brian, I guess Bob and Tom can throw their thoughts in this. It's kind of a big picture thought. But we've recently been at all-time highs in the industry backlog. We've had this unprecedented growth in investment related to the energy industry. We still have very elevated backlogs for certain car types, and as you mentioned, things seem to be softening and turning into a direction that potentially could get ugly. And some of the builders don't make an adjustment -- and this is a "what if" question, but a big "what if." What if there is consolidation in the industry? How would that affect you guys and are you prepared to potentially handle that if it occurs?

Brian Kenney:

Well, in terms of the consolidation in the industry, if this GE sale closes, it's a good example. I should let Tom chime in. I don't think it has a big effect at all on GATX, Art. We already compete against that fleet, having it change hands really isn't a competitive issue for us. Market share is really not that important of an issue in the rail leasing business as long as you're a significant player, you can do fine. And I think GATX has proven that over 115 years. But I can let Tom comment on the specific competitive characteristics of it.

Tom Ellman:

Yes, so as far as that deal goes, part of it went to Union Tank Car, which we've competed with for 100 years on the tank car side. And our capability and their capability are largely unchanged as a result of this transaction. The rest of it going from GE to First Union, similar characteristics between those two companies and we feel that we compete very, very well on service and relationships to the customer and focus on the market.

Brian Kenney:

So if the question is, "How will GATX participate in it?" I think the earlier question was a pretty good one about how long does it take for railcar prices to come down and be attractive. They're not really there yet for us, so we would be a willing participant. But as you know from knowing us for a while, Art, it's all about your entry cost. They have to be historically advantaged and competitively advantaged. And you've seen us back off new investment for the past couple years just for that reason. But we would absolutely participate if railcar values are at a more attractive level.

Art Hatfield:

Thanks. I appreciate the color. I'm sorry. I must -- I wasn't clear on what I was asking. And I was actually more concerned about your suppliers potentially being forced to consolidate if things get difficult enough, and how you would be able to handle that, or if it would be disruptive to you in the case of consolidation amongst the car builders is kind of where I was going originally. I'm sorry.

Brian Kenney:

Well, we have a number of sources on the freight car side and that -- it's -- I wouldn't call it a fragmented market, but it's an attractive market for a purchaser. It's always been a little bit more of an issue for GATX on the tank car side, we used to be a tank car manufacturer and we're not now. There are a number of tank car builders in North America. Most of our new cars have come from Trinity. I mean, I can't say it wouldn't be an issue but it's hard to see how that would play out. And in the end, GATX will find a way just like we do in Europe right now -- and that market is more fragmented, we actually assemble cars ourselves. Tom, I don't know if you have any --

Tom Ellman:

Yeah, the only thing I'd point out is that on the tank car side, in recent years, it's gone the opposite direction, you had Greenbrier and National Steel entering the market. So even just some degree of consolidation would put you back where you were.

Art Hatfield:

Great. That's very helpful. Thanks for your thoughts this morning.

Operator:

And we'll take our next question from Justin Bergner with Gabelli & Company.

Justin Bergner:

Good morning, everyone.

Bob Lyons:

Morning.

Justin Bergner:

My first question just relates to the book value dynamics of what you're impairing and selling in Portfolio Management. So, I mean, outside of the aircraft leasing business, what is not being sold and sort of is the $250 million of expected proceeds, then, sort of correspond to the written down book value from call it like $290 million of the portion that you're planning to sell?

Bob Lyons:

That is correct. So, if you think about -- within marine -- within Portfolio Management, we have about $450 million invested in marine. About $300 million of that is -- of that original net book value is targeted for sale right now. So, we'll realize roughly $250 million of proceeds after that. We've taken obviously the sizable loss or write-down on those assets already this quarter.

What will be left behind will primarily be our investment in five ocean-going LPG/LNG vessels that we own. We refer to those as the Norgas vessels. They're managed by I.M. Skaugen. The reason we're not selling those right now is those are very niche assets. They're performing okay, but really there's very limited secondary market activity for those assets, currently. If that were to change in the future, we would revisit that.

Justin Bergner:

Good. And my second question just relates to the Rolls-Royce joint venture and how it performed in the quarter. I guess if I adjust your affiliate earnings in your Portfolio Management segment for the portion of the impairment that went through that line item, I get an affiliate earnings of $17.4 million in Portfolio Management versus $17 million. Is that sort of a good indicator that the Rolls-Royce earnings were relatively flat?

Bob Lyons:

Actually, you're right in the right ballpark for the 2015 third quarter. In 2014, the Rolls contribution was a little bit less. We had a couple of other joint ventures that contributed last year that got wrapped up towards the end of 2014; some smaller JVs that aren't with us any longer. So, if you look at the Rolls contribution this quarter, it's about $17.5 million roughly versus $15 million last year in the third quarter.

And I would add too, we're expecting a pretty strong quarter from Rolls in Q4, both from an operations perspective and remarketing activity there as well.

Justin Bergner:

Great. And what's driving the strength in the Rolls JV performance year on year?

Bob Lyons:

They continue to be invested in very attractive engine types. Utilization remains very high. They've handled placements this year extremely well. And we've had some engine sales and teardowns, which is -- teardowns essentially the equivalent to scrap income on the rail side of the business, but all of those are contributing across the board.

Justin Bergner:

Okay, thank you. And one final question, which relates to the renewal rate. I think you've given it in past quarters, I'm not sure if I heard it earlier in the call.

Bob Lyons:

On the LPI?

Justin Bergner:

On the LPI, yes. I think it was like 84% in the second quarter.

Chris LaHurd:

On the renewal success rate.

Bob Lyons:

That's right.

Chris LaHurd:

Yeah, our renewal success rate for Q3 is around 68%.

Justin Bergner:

Thank you.

Operator:

And we'll go now to Jordan Hymowitz with Philadelphia Financial.

Jordan Hymowitz:

That was close, but hey guys. A question, in your segment operating profit -- from portfolio, American Steamship, rather, what else is in that besides that, so to speak? So, you're saying that if you're selling the marine you have a net breakeven or no real effect on earnings, where does all the profits in that segment come from?

Bob Lyons:

I want to make sure we're not mixing and matching. American Steamship segment is unaffected by anything done within Portfolio Management. So, the only marine assets being sold are those within Portfolio Management. And the primary income contributor to Portfolio Management is Rolls-Royce. That has been the case for some period of time. You can kind of dig into those details if you want. They're in the K and the Q, typically, but Rolls is the big income generator there and that will become even more evident as the rest of the marine assets are sold off or go away. You'll see that Rolls continues to be the big generator of income within Portfolio Management with some additional contribution from the LPG/LNG vessels.

Jordan Hymowitz:

Okay, I'm sorry it's a mistake and I thought the marine was the American Steamship segment.

Bob Lyons:

No.

Jordan Hymowitz:

Okay. Thank you.

Bob Lyons:

Yep, thanks Jordan.

Operator:

[Operator instructions] And we'll go now to Steve Barger with KeyBanc Capital Markets.

Ted Newman:

Good morning, gentlemen. It's Ted Newman on for Steve.

Bob Lyons:

Good morning.

Ted Newman:

You talked about railcar loadings -- they are down a little over 1% year to date. Just curious how customers are responding to that as well as higher velocity. Does that make them less inclined to renew all the cars that come up? Or do you think they are viewing this as more of a temporary situation?

Tom Ellman:

Yeah, when you look at the railcar loading numbers you have to break it down both to the impact on the customers and then for that reason they have different reactions. Those loading numbers by far most in our fleet, most impact to the coal customers because those are very, very high mileage cars and its one of the contributing factors to the overall weakness we've seen in coal.

At the opposite, extreme car types like most tank car types and plastic pellet cars might mix between 4 and 10 turns a year. So the change in railroad velocity is not particularly impactful to those. And then you have a whole bunch of cars in the middle like a grain car or a box car that would be between those two extremes.

Because of the long-term nature of our fleet, the only place that we are seeing it right now is in that coal fleet. If railroad velocity continue, to improve it might begin to touch some of the other parts of our fleet, but the big impact would really be most strongly felt in coal which -- it is touching us in intermodal where we have a pretty small presence.

Ted Newman:

Got it. And then my next question, you're obviously well-positioned to take advantage for market opportunities so between current liquidity and potential balance sheet capacity, could you talk a little bit about how much you could do?

Bob Lyons:

Well, we could do transactions of significant size. That is not a concern of mine at all from a liquidity standpoint -- from a balance sheet perspective. I think any attractive investment opportunity that presented itself we could pursue and pursue aggressively. The question gets back to Brian's earlier comment, which is the valuations available in the marketplace today and what that allows.

Ted Newman:

Got it. And just one last one. I know you mentioned losing money on the marine assets and you talked a little bit about that within the Portfolio Management. Can you talk about how old those assets were when you sold them?

Bob Lyons:

Well, there's a variety of assets in there and they're still in the process of being sold, but the ocean-going vessels probably date back anywhere between 10 and 15 years. They're getting older. Another reason why it's important to exit those now is we look over the course of the next five or 10 years. That's just not a business we're in really to be investing in refurbishment of those assets. They have many years to run but they are better off in the hands of others the deal with that everyday than us.

And on the inland side, I'd say probably between 3 and 10 years of age somewhere in that ballpark. A lot of those are tugs, tows and barges; good assets, they have got a lot of years left to run and we are seeing good interest in those in the secondary market.

Ted Newman:

Got it. Sorry, just one last follow-up to that. If prices were to remain stable where you sold these assets over this quarter, what kind of -- are you expecting a similar type of loss that you saw this quarter into the fourth quarter as you wrap up sales?

Bob Lyons:

Yeah, now I'm glad you asked that question. Don't anticipate any loss actually in the fourth quarter. As a matter of fact, the $26.6 million after-tax loss we've taken year to date, I would expect in the fourth quarter that number on a year-to-date basis will come down because some of the assets teed up for sale in the fourth quarter we'll actually see some gains on. Those are more the inland assets.

So, net-net, when all is said and done, we're probably looking at an after-tax loss somewhere in the $15 million to $20 million range. But that's already inclusive of the $26.5 million taken --

Brian Kenney:

For 2015

Bob Lyons:

For 2015, correct.

Ted Newman:

Understood. Thanks.

Bob Lyons:

Thank you.

Operator:

And we'll now take a question from Kristine Kubacki from Avondale Partners.

Kristine Kubacki:

Hi. Good morning. My question is a little bit narrow. I know you've got these assets at a steal back in 2009, but we've heard a lot from the railroads about kind of abandoning or really shrinking their coal networks. I was just kind of wondering how you think about the coal assets that you have in your portfolio right now. Are you going to stick with them, I guess is the short question.

Tom Ellman:

Yeah, so we've talked about coal repeatedly and the best thing to do right now is go short on term. Get them locked up and that's what we're looking to do.

Kristine Kubacki:

Okay. And then I guess -- and sorry if I missed this, but is there any color on -- it looks like sequentially a little bit better in Europe. What's kind of the nature of the market going on over there? It seems like some of the economic indicators are getting a little better.

Brian Kenney:

Yeah, but you know the economic weakness and volatility has been there for a couple of years and then combined with the continued low crude prices that's resulted in uneven demand for tank cars.

In Europe, for quite some time. I remember GATX Rail Europe has about 65% of their fleet carrying petroleum products, so it's been a very rocky market, but despite those conditions they've performed pretty well and at the end of the third quarter I think it's further evidence of that -- their utilization is 95.7 and started the year at 95.9.

At the beginning of the year we anticipated a bigger drop in utilization due to this continued weakness. So, it's been a pleasant surprise. They placed their new cars. They've taken close to 1,000 new cars and 2015 in placed virtually every one. I think they have less than 10 new cars idle and they've been pretty successful on lease renewals as well.

Pricing is different over there than in North America. It's much less volatile especially in the tank car side. Although, I think every year for the last six years they've realized average renewal rate increases in the low- to mid-single digits and at the end of 2015 it'll be lower. But if they have a year where it's a 1% that's a bad year for them, so it's definitely a different animal over there.

So, still a very rocky market. They performed very well. The sequential increase in revenue you see there is really from taking delivery of those new cars and replacing the older ones and scrapping them in the fleet. But in terms of business conditions, it's pretty much the same.

Kristine Kubacki:

Okay. Okay, that's helpful. And then, I guess I'm going to try to ask a little bit longer term question. You talked about asset prices are still pretty high on the railcar side and I guess, obviously, we all know it's going on in the freight environment and it sounds -- lease rates have started to come down. I guess when do you expect that we would see some opportunities or capitulation by non-traditional players out there that have entered the market? How long do you think that that takes to play out?

Brian Kenney:

It's a good question. I don't know if you heard the earlier question on that. Last time it took about two years from when we first saw the weakness in the market to where we started investing by helping some of the bankrupt lessors out there and actually towards the end of that by placing our own railcars. So that was the timeframe last time. It's a bit more difficult to figure that out this time. There is -- and you've heard us talk about it, Kristine, for a long time, we think the crude market has been over-served and a lot of the backlog manufacturing backlog was dedicated -- were earmarked for crude.

We thought that was a bad idea before crude oil prices dropped. So on the tank car side it's going to be interesting to see how that works. So we could see that drop faster than some of the freight car types. So potentially, it could be quicker on the tank car side, but we won't know until we get there.

Kristine Kubacki:

Exactly. I appreciate the time. Thank you very much guys.

Operator:

And we'll now take a follow-up question from Justin Bergner from Gabelli and Company.

Justin Bergner:

Hi. Thank you for taking my earlier questions and now my follow-up questions. In regards to the Rolls-Royce joint venture, I was thinking to your earlier comments about that being the right type of engines; seeing good demand for replacement leases and then some engine sales and teardowns. I mean, in light of everything that we're hearing in regards to sort of there being a potential bubble in sort of the wide-body market. Are you finding that your engines that are older, which normally would have been scrapped, are actually being utilized longer through the joint venture?

Bob Lyons:

Not necessarily. You know, we have -- our partner who manages that joint venture obviously has extensive asset knowledge and a very fixed view on what the life cycle is for the various engines within its portfolio -- within the portfolio. I would say actually many of the engines in the portfolio are in the mid-stage of their life cycle so they still have many years to operate regardless.

We have been a big investor historically in the V2500 engine and the A320. That has been an outstanding engine both through its operating lease period and at the end of its lease life and in certain circumstances we've seen those engines extended maybe a little bit longer but they're performing under the life cycle model that had been anticipated originally.

Justin Bergner:

Okay. So there's nothing unusual that's happening either in the scrappage side or the extension of the life of engines? It's just good operating performance of the joint venture?

Bob Lyons:

Yeah. The engines in general, we saw this -- you'll recall we used to be an aircraft lessor and when we exited that business and 2005, '06 and '07, we retained our investment here and one of the reasons we did is because of the attractiveness of the underlying assets -- maintains high utilization through cycles and it's been a great store of a value through cycles as well. And we have an outstanding partner who is very adept at managing these assets through their life cycle.

Justin Bergner:

Okay. Thank you and then a second follow-up question related to the profitability in Rail International. I guess, given that it declined year on year and there wasn't a meaningful change in asset dispositions, what exactly happened this quarter to cause the profit to materially come down, I guess, versus steadier conditions in the first half of the year?

Bob Lyons:

Well the other thing to keep in mind, Justin, on year-over-year is we have been fighting an FX headwind with the Euro at an average of about 131 last year at this point in time versus about 112 or 113 this year. So we really came into the year in a bit of a hole. And when you strip away that FX component, they'll actually add a little bit above where we had anticipated they would be.

Justin Bergner:

Okay, thanks so much, Bob.

Bob Lyons:

Yep. Thank you.

Operator:

And we'll now take a follow-up question from Steve O'Hara from Sidoti & Company.

Steve O'Hara:

Hi good morning. Thanks again for taking the follow-up. I just -- on the renewal success rate, I mean it dropped pretty good year over year, I don't know if that's even comparable, but was it -- I think you said you had a decent number of coal cars. Was that it -- was part of it due to your kind of desire to keep term high? If you could talk about that a little bit, I would appreciate it.

Tom Ellman:

Sure. Its -- anytime you look at a single quarter for renewal success percentage, it gets a little tricky because a couple transactions can move the needle pretty good. In this particular case, we have one very large transaction where we had a customer exiting a segment of their business and so those cars came back, but we placed them service-to-service with no interruption with somebody else who is in that business.

Also another area is -- we've talked about small cubes and that car type carry sand. And we proactively took a piece of that business and moved it from sand to another commodity that -- it doesn't experience the same volatility.

And when you kind of unwind for that, those transactions plus a little bit on the coal side, which we already talked about, you'd be back in the upper 70s or low 80s, so very consistent with where we have been.

Steve O'Hara:

Okay. And then just on maybe the number of cars you have coming up next year, what that looks like. I think it kind of goes between 17,000 and 18,000 a quarter or maybe it's a year? Could you just talk about that as well?

Bob Lyons:

Sure. We'll -- I'm not going to be able to provide a lot of detail. We will when we get into the fourth quarter earnings release as we always do, but it is probably going to come down a little bit from that number. We'll see how some of the renewals play out here through the balance of the fourth quarter, but we would anticipate that that number would come down a little bit in 2016, reflective of the fact that obviously we've -- for a number of years now, we've been stretching term and stretching term and stretching term -- that's the compounding effect of that; you start to see that with a little bit lighter renewal schedule going forward.

Steve O'Hara:

Yeah, especially maybe going into a peak year kind of maybe big turn I guess would be positive as well. All right. Thank you very much.

Bob Lyons:

Thank you.

Operator:

And we currently have no additional questions on the telephone.

Chris LaHurd:

Alright, I'd like to thank everyone for their participation on the call and please contact me if you have any questions. Thank you.

Operator:

And ladies and gentlemen, this does conclude today's conference. We do thank you for your participation. Have a wonderful rest of your day.