GATX Corporation

2016 Third Quarter Conference Call — October 20, 2016

Operator:

Good day. Welcome to the GATX Third-Quarter Conference Call. As a reminder, today's conference is being recorded. At this time, I'd like to turn the conference over to Chris LaHurd. Please go ahead.

Chris LaHurd:

Thank you. Good morning, everyone, and thanks for listening to our Third-Quarter Earnings call. With me today are Brian Kenney, President and CEO, Bob Lyons, Executive Vice President and CFO, and Tom Ellman, Executive Vice President and President of Rail North America.

I'll provide a brief overview of the results highlighted in our press release earlier this morning, and then we'll open the call to your questions. First, I'd like to remind you that some of the information you'll hear during our discussion today will consist of forward-looking statements. Actual results or trends could differ materially from our forecast. For more information, please refer to the risk factors discussed in GATX's Form 10-K for 2015. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Today, we reported 2016 third-quarter net income of $95.7 million or $2.36 per diluted share, and net income for the first nine months of 2016 of $226.2 million or $5.49 per diluted share. 2016 third-quarter results include a $49.1 million pre-tax residual sharing settlement fee for $30.3 million after-tax from the Portfolio Management segment, or $0.75 per diluted share for the third quarter and $0.74 per diluted share for the first nine months of 2016. Also, the third-quarter 2016 results include a net, after-tax gain from the exit of Portfolio Management's marine investments and a change in statutory tax rates in the UK of $4.3 million or $0.11 per diluted share, and a year-to-date net, after-tax gain of $6 million or $0.14 per diluted share.

Our third-quarter results were excellent despite challenging market dynamics. Utilization for Rail North America increased to 99.0%, and our renewal success rate was high at 74.1%, thanks to the diversity of our fleet, the high-quality customer base, outstanding service, and the diligence of our commercial and operations teams in placing new cars, and competing and keeping existing cars with our customers.

In the third quarter, GATX's Lease Price Index decreased by 21.4%, and the average renewal term was 29 months. It's also important to note the sequential drop in lease rates; so third quarter compared to second quarter has decelerated, with freight lease rates nearly flat, and tank car lease rates down about 15%. As we've stressed in prior quarters, due to our efforts to extend lease terms over the last several years, and sell near-term lease exposure of more volatile car types at attractive valuations, we have relatively fewer cars up for renewal in the coming quarters, which will help to buffer our fleet from these current market dynamics. By stretching these terms at very attractive lease rates, we've also locked in stable cash flow.

Over $4.2 billion at Rail North America alone, positioning us well to manage through this cycle, and capitalize on attractive investment opportunities. It's worth noting Rail International, ASC and our Portfolio Management segments are performing consistent with our expectations entering this year.

Finally, GATX repurchased nearly 564,000 shares, for approximately $25 million during the third quarter, at an average price of $44.35 per share. At the end of the quarter, $205 million remains available under the $300 million repurchase authorization. Bob Lyons has a few brief comments at this time.

Bob Lyons:

Thank you, Chris. Before we move to Q&A, I'd like to make a quick comment on the sizable fee that we reported, and called out in the third-quarter press release.

As noted, GATX received a residual sharing settlement fee of $49 million. This was unusual in both size and origin, and was a one-time event, thus we highlighted it. The settlement fee relates to a legacy transaction within Portfolio Management, dating all the way back to the early 2000s. At that time, we provided a guarantee on the residual value of certain non-GATX owned rail assets and in time, other parties in this transaction disputed the value of our fee. This dispute was argued, arbitrated and mediated over many years. Fortunately, we reached a settlement that resulted in this one-time cash payment of $49 million.

Given the size of the settlement fee, the fact that this emanated from a legacy activity in which we no longer participate, and the fact that we have no other transactions like this within GATX, we felt it appropriate to call it out separately in the press release and exclude it from earnings guidance. With that, we'll go to questions.

QUESTION AND ANSWER

Operator:

(Operator Instructions) And we'll go first to Allison Poliniak with Wells Fargo.

Allison Poliniak:

Good morning. Just wanted to touch on -- the renewal success rate obviously jumped up here and you noted that freight lease rates had flattened out here. Has there been any notable trends, maybe in the commodity type or specific car that reversed recently, or looks to be getting a little more better -- or looks to be getting better, sorry?

Tom Ellman:

Yes. So one of the things we have highlighted in talking about the LPI in the past is that individual quarter moves are really hard to draw meaningful conclusions from, because it can be impacted by a few unique transactions. What I would conclude, looking at this quarter versus last quarter, is that the rate environment from an LPI perspective is relatively consistent. The more meaningful numbers, what Chris highlighted at the beginning of the Call, which is the lease rates on incremental business compared to a quarter ago, which was the 15% decline in tank cars and relative flatness in freight cars.

Allison Poliniak:

Okay. Great. I believe last quarter when we talked, you talked about 15,000 cars coming up for renewal in '17. 13,000 of those were more for a long-term lease. As they enter -- the renewal terms come down -- has that changed any as we look to '17? Is that going to start to creep up a little bit?

Bob Lyons:

Allison, it's Bob Lyons. At this point, it hasn't changed significantly. We'll give you an update on that number in our January earnings release, as it's also partly dependent on what happens with some of the renewals here in the fourth quarter. But we'll give you a full update on that in January.

Allison Poliniak:

Great. One last thing. Just the secondary market seems a little -- a bit more active than we would have thought, just given all the volatility in the market. Could you just give us your thoughts on that?

Bob Lyons:

Sure. It's actually been a significant bright spot that at the secondary market for routine transactions, both that GATX is selling and others are selling in the marketplace. The demand has continued to be very strong, and I would attribute that to the fact that the capital markets remain very strong, interest rates are very low, and buyers are looking for yield. So our assets from that standpoint remain very attractive, and we see continued activity there. As long as those rates stay where they're at, and you get banks and other institutions looking to add yield assets to their portfolio, we think we'll continue to see good demand.

Allison Poliniak:

Great. Thanks so much.

Operator:

And we'll go next to Justin Long with Stephens.

Justin Long:

Thanks. Good morning, guys. I was wondering first if you could give us a little bit more color on the LPI, specifically as it relates to any impact you saw from coal car renewals in the quarter, with the coal environment picking up a little bit over the last few months. I'm wondering if that had a positive impact on the LPI in the quarter, and if you could comment on that? Secondly, do you have any expectation for how LPI could look in the fourth quarter, and into next year?

Tom Ellman:

This is Tom. I'll take the first part of that, and then let Bob take the second part. So as far as what's going on in coal, you're absolutely correct that we saw an increase in coal loadings during the course of the quarter, primarily driven by a hot summer and a little bit of an uptick in the price of natural gas. But what's important to note is, the oversupply of coal cars remains extreme. It might have come down from a high of 400 sets in the industry sitting idle, down to about 250 sets sitting idle.

So, I would not view this as a coal recovery at this point in time. Again, going back to the first question on quarter-over-quarter LPI, I really wouldn't draw conclusions about a material change in what's going on in the lease rate environment, inclusive or exclusive of coal, just because of what happened for a one-quarter move.

Bob Lyons:

Justin, with regards to the LPI for the fourth quarter, I can't give you a specific number on that, and book end that for you. It will be -- continue to be materially negative, and as you've seen over the last couple of quarters, the rate pressure does continue or is continuing here, and it will continue in the fourth quarter – we'll see significant negative pressure on that LPI.

Justin Long:

Okay. Fair enough. Secondly, I wanted to ask about oil prices. We've seen some recent strengths. I was curious how you feel that could impact your business -- let's just say oil prices go to $60 to $70. Do you think that would have a material impact on the railcar market, or your business?

Tom Ellman:

Okay. First, talking about North American rail, and then Brian will have some additional comments. In the near term, particularly for our fleet, it is just not that material. We only have 2,100 cars in crude oil service, and mostly put on long-term leases during the strong part of the market. So, what goes on in coal itself wouldn't be very material -- I'm sorry, crude oil itself, wouldn't be very material for our fleet. What you would see in the industry with that kind of pick up, is you probably would see an almost immediate pickup in demand for small-cube covered hoppers, because drilling activity would likely increase, and incrementally the industry would require more sand cars.

What it would do for the industry crude oil cars as a whole is difficult to say. We're certainly significantly oversupplied at this point, and there have been improvements in pipeline capacity, so the degree to which you would see that actually result in incremental car demand is difficult to say. Directionally, it would be helpful, but there would be some offsetting factors.

Brian Kenney:

Right. In Europe, it's going to have a more direct and immediate impact, because you might remember petroleum, or mineral oil, as we refer to it in Europe, comprises almost 65% of the fleet. Now, that's not crude. Most of it is refined product; in fact, almost all of it. But it's an annual renewal business, so you'd see a direct impact more quickly in Europe, since 65% of their fleet is in petroleum products.

Justin Long:

Okay. Great. That's helpful. One more from me. The AAR has started publishing data on railcars and storage again. I think about 23% of the fleet is parked right now. I wanted to get your opinion, or ask you if you had a sense on how much of that fleet in storage is energy related versus non-energy related?

Tom Ellman:

That's a great question. In addition to reintroducing that statistic; in just two months, so it's very recent -- they've started breaking it out by major car type. So there's actually some industry statistics on that. What they don't do is provide energy, they don't do it by commodities; instead they do it by car type. So of the cars that are in storage right now, per their definition -- which haven't moved in 60 days, and they've also actually expanded that definition a little bit. They have also excluded cars where the last move-- the last recorded move -- was a loaded move. So they're trying to take out cars that just move slow. We still don't know if it's a perfect statistic, but it certainly is trying to address that.

Tank cars represented 32% of that number, and covered hoppers represented 29%. Obviously, within those, the first one you have crude oil cars; the second one you have small-cube covered hoppers, but breaking out energy, specifically, is challenging. Just like the statistic overall, though, we're not going to be as focused on those absolute numbers, but rather how they change period to period; the delta will be more meaningful. If you look at the delta in the first two months that this statistic has been around, you've seen a significant decrease in covered hoppers, which is primarily related to the record grain harvest, and you also have seen improvement in the open-top hoppers and gondolas, which largely would be coal cars, and be indicative of the improvement in coal that I talked about earlier.

Justin Long:

Okay. That's helpful color. I appreciate the time. I will leave it at that.

Operator:

And we'll next go to Gordon Johnson with Axiom Capital Management.

James Bardowski:

This is James Bardowski in for Gordon. Thanks for taking the question. First of all, you reaffirmed your full-year EPS guidance range, excluding the $0.74 per share Portfolio Management fee. Using the midpoint on this implies 4Q EPS is $0.89. Of this $0.89, how much are you attributing to remarketing income as opposed to --

Bob Lyons:

Remarketing income right now we anticipate is going to be very light in the fourth quarter.

James Bardowski:

Very light. Okay, that definitely helps. Then, secondly, you exited the third quarter with the North American fleet at close to 105,000 railcars, which is the lowest level since at least before 2008, presumably to manage the fleet utilization. Are you seeing any material downward pressure on remarketing prices? Basically, in your attempt to manage the fleet utilization?

Tom Ellman:

Yes. I will take the first part of that and let others chime in. First of all, your 105,000 cars, I think you are probably missing the boxcars; we separately report the two.

James Bardowski:

Right. Those only.

Bob Lyons:

As noted earlier, we absolutely are seeing rate pressure. We've seen that for quite some period of time. It's not a case of utilization being managed through the scrapping process, because what we do in all markets is the same thing; which is, take a look at the anticipated earnings of the car over its remaining life, when it comes into shop, and compare that to current scrap prices. And then, you will do the economically most advantageous thing. In this environment, scrap prices are low and the prospects for the car are historically at low levels. Both of those factors to a large degree cancel out, and you're not seeing any unusual scrapping activity.

James Bardowski:

One more, and I will hand it off. More of an abstract question. Historically, it is pretty well known that railcar loadings have been the leading indicator of the industry, which clearly are down -- I think 85, 87 straight weeks right now. Signs are mixed that the slowdown is abating, arguable in either direction. Given that GATX has a more normalized 15,000 or so leases coming up for renewal in 2017, how is this factoring into your forward expectations?

Tom Ellman:

So first of all -- at least in the third quarter, in a couple of different areas, you actually saw significant increases in railcar loadings; most notably, coal and the grain cars that I mentioned earlier. Overall though, as far as expectations go, we've been talking for quite some time now about the oversupply situation in general, and some of the areas where we've seen decreased demand. Both of those factors matter, but overall, the more powerful is that supply statistic -- how many excess cars there are.

Earlier, we were talking about the AAR statistic, and the questioner mentioned 23% of the cars being idle, per the AAR definition. So, significantly, too many cars already in the industry. Plus, if you look at the backlog of new cars -- unfortunately, the third-quarter statistics are not yet out -- but as of the second quarter, there were 89,000 cars yet to be delivered. And that number is bigger than the absolute peak of the last upcycle, which was 88,000 cars. So, our expectations for quite a while have been built around the situation that the industry had to get back into balance, from a supply-demand situation.

James Bardowski:

All right. Thank you very much.

Operator:

We'll go next to Matt Brooklier with Longbow Research.

Matt Brooklier:

Hi, thanks. Good morning. I wanted to just dig in a little bit, in terms of the improvement in utilization on the fleet in 3Q. Tom may have touched on it a little bit earlier, but I am trying to get a sense for specific car types that enabled you to get the fleet a little more busy here in 3Q versus 2Q.

Tom Ellman:

There was several different car types contributed, but the single biggest contributor was coal, and very much related to the fact that loadings ticked up. One of the things we try to do in all situations is be the first mover, and have cars ready to go and available, and we were able to take advantage of that, and put some coal cars to work. Now, importantly, again, overall, the industry still is seeing way too many idle coal cars, so overall in the industry, rates continue to be depressed, and I would not view that uptick in utilization as indicative of a larger coal recovery.

Matt Brooklier:

Okay. And other car types that may have helped lift utilization, I guess -- was grain one of them? And any other that stood out? If you could talk to that.

Tom Ellman:

If we would have had idle grain cars, they would have helped, but our grain fleet was 100% utilized going into it. We didn't have cars to contribute in that area.

Brian Kenney:

The drop in utilization earlier in the year was driven by coal, and now the pickup has been driven by coal. Everything else, we have had pretty good renewal success on.

Matt Brooklier:

And the rates on coal cars are still trending at lower-end levels?

Tom Ellman:

Yes, that's correct.

Matt Brooklier:

Okay. I'm trying to think out into '17. I think others have asked the question, but just looking at the LPI, trying to get a sense for, I guess, if we have bottomed here, or is the potential for the LPI to be down incrementally in '17? How I am thinking about it is even if rates were to hold moving forward, the comps are getting more difficult as we move out into '17. Am I thinking about that right, or what are your thoughts? I know you don't want to commit to anything, but if you could just talk a little bit to thinking about the LPI, and where it could bottom?

Brian Kenney:

You answered your own question. That's exactly right. We don't know where absolute rates are going, but even if they stayed constant and they had bottomed out, we'd still be under LPI pressure, because that expiring rate is increasing due to the strong market over the last four years, prior to this downturn. So yes, there's LPI pressure next year, regardless of if rates have bottomed out, or not.

Matt Brooklier:

Okay. And then you guys did a really good job on the maintenance expense side of things during 3Q. I think the guide for the year is expectations for that line to be flat, to maybe up a little bit. Has that line of thought changed in terms of you all in maintenance expense in '16? And then thoughts on '17, if you have any?

Brian Kenney:

Well, in '16, what we said coming into the year, you're right -- it would be flat to slightly up. We have a lower compliance, especially tank compliance in '16, versus '15. We anticipated there would be more maintenance, due to lower commercial success, more churn in the fleet, more cars coming into the network. We have had lower compliance, but our commercial success, as evidenced by the higher utilization rate, has been better than we anticipated.

A lot of those cars have not entered the network, as our renewal success, especially for tank, which is maintenance intensive, has hung in there very well. We are doing better in the North American maintenance line than we anticipated. As far as next year, we will talk about that in January, but on the compliance side, it is a lighter year in 2017 from a compliance perspective, especially tank compliance. But, that's scheduled. What we actually do depends on what we can get into the network.

Matt Brooklier:

Okay. Just one last quick one. The $5.5 million of Other Income at Rail International, what was that?

Bob Lyons:

Sure. I think many of you are familiar with a long-running legal case we've been involved with, within GATX Rail Europe, emanating out of Italy. Over the last many quarters, we've absorbed legal expense associated with that case, and here in the third quarter, we were reimbursed by our insurers for a portion of that legal expense that we had previously incurred and expensed -- so that was a catch-up.

Matt Brooklier:

Okay. Are there further catch-ups as we're thinking about fourth quarter?

Bob Lyons:

Matt, no, not really. It was about $6.5 million, $7 million roughly.

Matt Brooklier:

Got you. Okay. Appreciate the time.

Operator:

And we'll go next to Justin Bergner with Gabelli & Company.

Justin Bergner:

Good morning, Brian. Good morning, Bob.

Bob Lyons/Brian Kenney:

Good morning. Hi, Justin.

Justin Berger:

First question relates to the tank car lease rates. You mentioned that they were down about 15% sequentially in the third quarter. Was that a consistent down 15%, or do you see the decline taper and then flatten off towards the end of the quarter?

Tom Ellman:

Even quarter to quarter is challenging to draw significant conclusions. Certainly within a quarter, that's just too precise.

Justin Bergner:

Okay. Understood. I think I might have joined late and missed the renewal rate for the quarter. Could you remind me what that was?

Chris LaHurd:

The renewal success rate was 74.1%.

Justin Bergner:

Okay. Are you optimistic you can keep it at that level going forward? Or is that more of a one quarter snap back from the 60s?

Bob Lyons:

We are certainly confident we'll be able to keep the rate north of historical lows. We've been down into the 50s in a more challenging market environment. Over the last several quarters, we've been well north of that; we'll continue to be north of that. It's going to be a challenging environment, and that number will bump around a bit from quarter to quarter, depending on the types of cars that come up for renewal.

Justin Bergner:

Okay. Understood. And then just two more detailed questions. The Other Revenue in North American rail was $17 million versus $20 million year on year. Is there any helpful detail on that decline?

Bob Lyons:

There's nothing significant there. That number is really a compilation of both scrap income, railroad repair -- or railroad reimbursements, mileage reimbursements. So, nothing significant there, Justin.

Justin Bergner:

Okay. So there's no step down I should worry about there?

Bob Lyons:

No. No single line item.

Justin Bergner:

All right. In regards to this legal cost which you received some reimbursement from in third quarter, were these anticipated at the start of the year when you gave guidance, and if not, how many cents is this taking away on a net basis from 2016 earnings, if the year were to end today?

Bob Lyons:

Actually, they were anticipated and baked into our guidance coming into the year.

Justin Bergner:

Okay. So is it sort of trending as you anticipated, or little bit better for the reimbursement? Or?

Bob Lyons:

It came in very close to what we thought it would, in terms of the reimbursement for expenses we had already incurred and expensed.

Justin Bergner:

Okay. Thanks for taking all my questions this morning.

Bob Lyons:

Sure.

Operator:

We'll go next to Steve O'Hara with Sidoti & Company.

Steve O'Hara:

Good morning.

Bob Lyons:

Good morning.

Steve O'Hara:

Just going to the backlog and where it stands, I guess there's no update yet, but it seems like -- it seems high. Do you have a sense for what the -- maybe the time weighted backlog is. Do you think some of these deliveries are getting pushed out? Is it more acute of a problem, or less acute maybe than it seems?

Tom Ellman:

The way the backlog gets reported by the builders and aggregated, so we are not a builder. Actually, it's one of the things that we struggle with, and try to get a real sense on what's going on in the backlog. We'll be very interested to see the third-quarter numbers. I'm told that they should be out tomorrow. We mentioned this on the last couple of calls. One of the challenges, one of the things you try to do is take the beginning backlog plus orders, minus deliveries, and then you should get the ending backlog. That hasn't exactly worked for the past couple quarters.

What's going on, why are cars coming into or out of the backlog, that's something we don't have great insight into. The other thing we don't have great insight into is how long out is that backlog. For instance, when we do our long-term supply agreements, typically that all goes into the backlog, but obviously some of those don't deliver for quite some time. We don't know what the original length of the backlog was, and then we don't know how it might have changed if people are deferring or switching orders.

Steve O'Hara:

Okay. Great. And then just on ASC, it seems -- I thought the commentary coming into the year was that I think you had trimmed capacity, sailing fleet for the year, and it seemed like there was going to be, there was an expectation that things were going to be, I think, up year-over-year there. I thought fairly materially, maybe you've updated that and I missed it throughout the year. Is it just a matter of the fact that things are a little bit weaker than you expected coming in, or maybe you could just discuss that? Thank you.

Bob Lyons:

Sure. From a tonnage perspective, we expect to move almost the same amount of volume this year as we were going to move last year. So, really, any incremental benefit was going to come from running the fleet more efficiently, with fewer vessels. We are only operating 11 vessels this year. Segment profit is expected to be in the range, or up a little bit from where we had been last year. So we weren't anticipating any significant material change at ASC. It's turned out to be that kind of year. It remains a pretty challenging market when you're moving iron ore and coal.

Steve O'Hara:

Yeah. Okay, lastly, within Portfolio Management, I think in the share of affiliate earnings, it was a pretty good jump sequentially and the best of the year at 15.2. Was there anything else in there that maybe you shouldn't read into going forward, or is it just a very good quarter there?

Bob Lyons:

It was a good quarter from Rolls-Royce. That's really the big driver of that share of affiliate earnings line. We would expect fourth-quarter to be in that range or even higher, as we close the year out, and have a little bit more of an active remarketing calendar here in the third quarter and fourth quarter within Rolls.

Steve O'Hara:

Okay. Okay. So I guess, was more of it due to the ongoing operations, or more of the remarketing?

Bob Lyons:

The timing of remarketing we see somewhat of a similar, or lack of a pattern, as you may see in Rail North America, depending on when we're in the market with assets, and when we're not. It can move around a bit, for sure.

Steve O'Hara:

Okay. Thank you very much.

Operator:

And we'll go next to Kristine Kubacki wth CLSA.

Kristine Kubacki:

Good morning, guys. Bob, you may have just answered my question, but you mentioned, and I am focused here on the rail side of remarketing income. You said it's going to be light in the fourth quarter, and I get it is really lumpy, but can we infer anything? I know obviously the market is under stress, but it seems like the secondary market is still holding up. As we move into '17 and we think about our models there, are we thinking about the same kind of lumpiness? It won't be a fourth-quarter run rate, correct?

Bob Lyons:

Correct. The fourth quarter won't be indicative of what we anticipate in 2017, and in fact, Kristine, I had mentioned the secondary market's really held up extremely well. And better than what we anticipated coming into the year from a number of bidders -- volume, what folks are willing to pay for assets on lease. So, it's been a more solid area of activity than we anticipated really, coming into the year. Given where interest rates are, and where it looks like they will continue to be in 2017, we're optimistic we will have a pretty solid year in 2017. We'll give you more guidance on a range of that, as we get into January, with the year-end numbers.

Kristine Kubacki:

Okay, that's helpful. The second part of that question then would be, you talked a little bit about asset opportunities at some point in the cycle. Does that mean, given where asset prices still are and given the secondary market activity, does that make it more challenging for you to find opportunities, or do you think things will be coming to market maybe later in '17?

Brian Kenney:

That is exactly right. It's Brian. That's the problem with the secondary market hanging in there, and the capital markets hanging in there. It's great for financial results, because we're always optimizing our fleet, but it makes things very difficult from an investment perspective. Having said that, I know that capital markets are strong and the market's hanging in there, but I think across the leasing industry, we've seen utilization drop, and that obviously results in financial degradation a little more quickly than rate drops. If that trend continues, you'd expect to see some financial playing out there in the leasing industry in 2017, and then I would expect asset prices to come down. That's the way it has worked in prior downturns. This one has been a little unique because the capital markets have been so strong, but I think as utilization drops, you'll start to see less incentive to pick up new assets, as people try to deal with their idle fleet.

Kristine Kubacki:

Okay, that's helpful. One last one, and forgive me if you've already answered this. But just noticing the utilization on the boxcar fleet went down a little bit sequentially. Is there anything there that was more seasonal in nature?

Tom Ellman:

Actually, the biggest single mover in the boxcar is the railroad efficiency because that has been better through the course of the year – it's popped around a little bit, but it's been largely better. People need a few less cars.

Kristine Kubacki:

Okay. Perfect. Thank you very much.

Operator:

And we'll go next to Steve Barger with KeyBanc Capital Markets.

Steve Barger:

Hi, guys.

Bob Lyons:

Good morning.

Steve Barger:

Just curious, when is the last time renewal terms have been down to 29 months? Do you think that contracts more from here?

Tom Ellman:

Yes. From a general scale standpoint, both the terms and the rates that you're seeing now are similar to what they were during the last downturn.

Steve Barger:

You mean in 2009 and 2010?

Tom Ellman:

Correct.

Bob Lyons:

Steve, I think we got down into the low 30-month range back at that timeframe.

Steve Barger:

Just based on conditions right now, because things rebounded fairly quickly back then, do you expect that 29 months is the trough, or does that get shorter?

Tom Ellman:

So overall, what we try to do all the time is take terms shorter in low-rate environments. Exactly how low the number goes, it's difficult to project. Generally speaking, there's a minimum term that both we and the customers would like, just to make the whole transaction worthwhile. I wouldn't expect it to go materially lower, but certainly in this kind of environment, we're open to one- and two-year leases.

Steve Barger:

Sure.

Brian Kenney:

I'll also say that quarter to quarter that number bounces around as much as the Lease Price Index bounces around, for the same reasons.

Steve Barger:

Right. And just broadly speaking, do you have historical data for conditions like this, where railcar traffic levels are bleeding down for multiple years in a row? There's a car oversupply. If there's been a situation like this in the past, how long, how many years did it take for the industry to balance out?

Bob Lyons:

Well, I'd say there has not been an environment exactly like this one. If you look at the last downturn of the second half of 2008, '09 and '10, that was an economic-driven -- financial market driven collapse. That, then, bled into a decline in commodity movements. So, that downturn was very different, as was the prior one back from 2002 and 2003. There is no exact comp on that front.

Steve Barger:

Well, I guess just more prospectively, when you think about the current conditions economically, and the overcapacity, would you take a stab at how long it takes to balance out supply and demand?

Bob Lyons:

I'd say this time around, the issue, the challenges in our industry are more rail specific and unique, given the overcapacity and oversupply, the inventory, the backlog, is really -- outweighs some of the other factors at play here.

Brian Kenney:

I mean, we're not trying to duck the question. To be more specific, Tom answered a question earlier about the nature of the backlog and our answer was, we don't really know from a time-weighted perspective what is that like and what is happening. If we had more knowledge there, we could be more definitive about how long we think this would last.

A lot of things could happen in that backlog. Orders could be canceled, orders could be deferred, which we hear anecdotally is already happening. In the industry, there could be a lot more scrapping, as well, for just general economic reasons as well as regulatory reasons, as those cars bump up against the deadline. There are other things that could affect that industry capacity, but it is hard to determine exactly how long this will last, unless we know more about that backlog.

Steve Barger:

Understood. To your point on cancellation and deferral, last quarter you modified a contract for somebody. I think you got a fee and some other concessions. Are you seeing more customers looking for changes?

Bob Lyons:

Steve, that was in the first quarter. We did the large one, where we collected a sizable fee for that one, and we highlighted that one because of the size of the fee, and the fact that it was a bit unusual. We continue to receive some lease modification requests from time to time, but it's not a material flow or significant flow.

Steve Barger:

Got it. Last question. Obviously, your utilization rate remains high, because cars are under contract. But when I think about those AAR idle car statistics, is your fleet similar, in terms of effective utilization, or are you outperforming that idle car stat?

Tom Ellman:

The answer is, it's exactly what's going on with our cars. The customer use of our cars -- it's difficult to say. But, if you look at the mix of our fleet compared to the mix of the industry as a whole, I would say it is highly likely that our cars are more utilized in the industry, just as a whole. Most specifically, relatively low weightings on coal cars, on crude oil cars, on small-cube covered hoppers.

Steve Barger:

Right. Okay. Thanks so much.

Bob Lyons:

Thank you.

Operator:

And we'll go next to Justin Long with Stephens.

Justin Long:

I just had a quick one I wanted to clarify on the guidance. What's the year-to-date EPS number you're using in the guidance? I know you are excluding the charge this quarter, but there were a couple of other moving pieces. I wanted to make sure we were using the same numbers as you guys.

Bob Lyons:

Sure. If you remove the Marine-Related and Other Items at Portfolio Management and the settlement fee, you back down to a number year to date of about $4.60 a share, versus the guidance for the full year of $5.55 to $5.75.

Justin Bergner:

Okay, that's helpful. At the midpoint of that, it implies $1.05 or so for the fourth quarter. I know you're not giving details on 2017 yet, but just from a high level, does that seem like a ballpark run rate for next year, maybe with the exception of remarketing income being a little bit higher, as you talked about before?

Bob Lyons:

Well, I wouldn't read too much into that fourth-quarter number on a stand-alone basis, because of the remarketing piece and because of the fact that American Steamship really winds down operations in the fourth quarter. I wouldn't look at that as a run rate number. Obviously, when we come back to you in January, we'll give you the full-year guidance, and the variables that all went into that.

Justin Long:

Okay, great. I will leave it at that. Thanks again for the time.

Operator:

It appears there are no further questions at this time. I'd now like to turn the conference over to Mr. LaHurd for any additional or closing remarks.

Chris LaHurd:

I just want to thank everyone for their participation on the Call. If you have any questions, you can give me a call directly. Thank you.

Operator:

Ladies and gentlemen, that does conclude today's conference call. Thank you for your participation.