2017 Second Quarter Conference Call **July 20, 2017**

Operator:

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

Jennifer McManus:

Thank you. Good morning, everyone, and thanks for joining GATX's Second Quarter Earnings Call. I'm joined today by Brian Kenney, President and CEO; Bob Lyons, Executive Vice President and CFO; and Tom Ellman, Executive Vice President and President of Rail North America.

Please note 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 statements or forecasts. For more information, please refer to the risk factors discussed in GATX's Form 10-K for 2016. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Today, GATX reported 2017 second quarter net income of $53.4 million or $1.35 per diluted share, and net income for the first six months of 2017 of $110.9 million, or $2.79 per diluted share. 2017 second quarter and year-to-date results include a net gain of approximately $1.1 million, or $0.03 per diluted share associated with the planned exit of the majority of Portfolio Management's marine investments.

Our second quarter results reflect excellent execution by our team in the face of an ongoing oversupply of existing railcars and a large manufacturing backlog. Rail North America's fleet utilization remained high at 98.8% at the end of the second quarter as we continue to aggressively protect utilization. During the quarter, the renewal rate change of GATX's Lease Price Index was a negative 21.4% and the average renewal term was 32 months. As noted earlier in the earnings release, this sequential improvement in LPI reflects some unique lease renewals in the quarter and is not indicative of a widespread improvement in absolute lease rates, as rates for both tank and freight cars have remained flat thus far in 2017.

We continue to successfully place cars from our committed supply order with a diverse customer base and have already placed nearly 4,000 cars from our 2014 agreement. In fact, our 2017 scheduled deliveries are fully placed and we are making solid progress on the 2018 schedule.

The North American rail secondary market remains active, reflective of continued interest in rail assets and readily available capital for our buyer universe. GATX will continue to look for opportunities to optimize our fleet by leveraging this demand. However, our planned remarketing events for 2017 have largely been completed in the first half of the year. Therefore, we currently expect that full-year remarketing income will still be in the previously provided range of $35 million to $40 million.

Within Rail International, the European tank car leasing market remains stable evidenced by GATX Rail Europe's fleet utilization of 95.7%. Rail International's investment volume was approximately $33 million in the quarter.

American Steamship Company is performing as expected. Performance for the remainder of 2017 looks positive from a volume demand standpoint, with weather being the uncontrollable variable in terms of results.

Portfolio Management's results were driven primarily by the solid performance of the Rolls-Royce and Partners Finance affiliates. The business continues to perform well, reflecting strong demand for aircraft spare engines. As noted in our release, the decline in segment profit was predominantly driven by higher residual fees earned in the second quarter of 2016.

Finally, GATX repurchased nearly 410,000 shares for approximately $25 million during the second quarter. Year-to-date, we have repurchased nearly 850,000 shares for $50 million.

Those are our prepared remarks. So I'll hand it back over to the operator so we can open it up for Q&A.

QUESTION AND ANSWER

Operator:

(Operator Instructions) Our first question comes from Prashant Rao with Citi.

Prashant Rao:

Good morning, guys. Thanks for taking the question. I wanted to start by asking about the North American fleet. Performance held up sequentially, which is a good thing. And I just wanted to get a sense of the cadence of lease rate declines as you re-price some of these cars coming off fleet -- off lease in the back half of the year given the sequential strength in the first half. And maybe, secondarily, also to try to figure out, how the boxcar fleet performed in the quarter versus your expectations and maybe a little bit of color into what you expect in the back half -- it looks like utilization ticked down there a little bit.

Tom Ellman:

Great. Okay. So this is Tom Ellman. I'll take those two questions. First, starting with the LPI and the lease rates. As noted in the opening comments, sequentially, lease rates have been pretty stable for the past couple of quarters. And going forward, we would expect lease rates to be in a similar range. The one car type that has performed better than expectations from a lease rate perspective is the small-cube covered hopper that carries a variety of commodities; but what's driving the strength, is sand. So, as far as sequential lease rates going forward, expectations that they would be similar to what we've seen so far this year would be appropriate.

As far as the boxcar fleet goes, you did see a decline utilization in the quarter. That was driven almost totally by the returns from CSX as part of their precision railroading strategy. And we received over 800 boxcars back from the CSX. The good news is that action -- that freight still has to move. So we have already seen significant inquiries and activity in that fleet, and we expect that utilization to rebound starting next quarter.

Prashant Rao:

Okay, that's helpful. And then as I think about the guidance overall -- said in your prepared comments that substantially most of the planned remarketing income has been achieved in the first half of the year. And Bob, I know you've said before that you wait until the end of the year to see if there's some upside to that. But -- and I know it's kind of early days, but from where we stand right now, is there -- what's the probability look like of maybe upsizing what you see in that package as you come towards the back half of the year? What are inquiry levels like? And what's the market feeling like in terms of those asset dispositions?

Bob Lyons:

Well, the markets held up particularly well. Given the continued interest in rail assets, the low yield environment that a lot of the buyers are living in -- we continue to see pretty good, broad-based demand for the packages we're putting into the market. We will, as we usually do, go to market with another pool of cars, probably in the late third quarter, in the fourth quarter. The timing of that remains unknown and really the demand for that and the interest in it, I can't predict right now. So, we'll see how it plays out as we get towards the end of the year. But so far, what we've seen is there has been pretty good, continued good interest, and I'd say broad-based for many of the car types we're putting in the market.

Prashant Rao:

Okay, that makes sense. Thanks. And just one last quick one, if I could sneak it in. In the LPI, the renewal term ticked up from 29 to 32 months. Anything to read into that? Or is that just sort of how things fell for the quarter?

Tom Ellman:

Yeah, there's nothing special to read into that. Consistent with the past several quarters, we're trying to go short in a challenging lease rate environment.

Prashant Rao:

Excellent. Thanks for the time guys. I'll turn it over.

Bob Lyons:

Thanks.

Operator:

We'll take our next question from Allison Poliniak with Wells Fargo.

Allison Poliniak:

Hi, guys. Good morning. Just following on your -- some more color on the secondary market. I mean, obviously, you're going to -- you're saying there's still a lot of interest there. Any sense that we could transition in the next, say, 12 months back to a buyer's market for you?

Bob Lyons:

Well, I think -- we're always in the market looking to buy railcars. And it's been pretty competitive, for sure. We did buy some cars in the secondary market in the second quarter in a smaller lot. But there's definitely continued competition -- there's continued interest in the asset class. And it's made it difficult, particularly on some of the bigger portfolios.

Brian Kenney:

Yes, I can add to that. It's more challenging this time than the last downturn in 2009 and 2010. Obviously, that was driven by the Great Recession. And the capital markets were in disarray and people were having a tough time getting financing and they just weren't showing up at these sales. Completely different situation this time. This is a rail-driven downturn from the oversupply. General economy's fine, access to financing is there.

So everything's a lot more competitive. And the fleets that have been offered for sale over the last 6 to 8 months, you see just a lot more competition for them. So it is different this time.

Allison Poliniak:

Great. And then utilization, it's been coming in a little higher than we anticipated. And I know you talked about it stepping down in H2 because of coal cars that are coming up. Can you give us a sense, like what the exit rate that you think we would see in terms of utilization for your fleet exiting 2017?

Tom Ellman:

Yeah. So as you noted, utilization has been very strong. And I would say, right now, it's kind of at the high range of what our expectations would have been coming into the year. One of the things that we really benefit from as the market softens, ironically, is customers who were taking cars from anybody they could get them from in a hot market generally tend to try to consolidate suppliers and return cars first to marginal suppliers. And in that situation, GATX generally increases market share with the customers that were most interested in doing that. So that has helped our utilization. I think you're going to continue to see the same thing you have so far this year going forward. It's going to continue to be a challenging market. We should perform fairly well; we should perform quite well within that. And the only incremental pressure you'll see is the heavy back end coal expirations at the end of the year. It's important to note though, a lot of those are at relatively low lease rates to start with. So even if there's some pressure on the operating statistics, it shouldn't be particularly impactful in financial results.

Allison Poliniak:

Great, thanks so much.

Operator:

Our next question comes from Matt Elkott with Cowen.

Matt Elkott:

Good morning. Thank you for taking my question. I wanted to touch back on the new equipment pricing question -- pricing being more competitive to buyers this time around than the previous downturn. Can you guys give us any type of quantification? I mean, from your angle, the overall equipment pricing, is it down percentage-wise 20% now than in the previous downturn? Or any type of quantification on how equipment pricing fell to buyers in this downturn versus the previous one in '08, '09?

Brian Kenney:

Well, you said new equipment, what we're really talking about is existing fleets offered for sale and equipment in the secondary market. So, we're talking about used equipment in that comment. As far as new equipment, Tom can you?

Tom Ellman:

Yeah. So in this market, manufacturers are working really hard to keep production lines moving. So in any softer market, you'll see new car costs come down a bit, absent what might be going on in their supply situation. And so, at least over the past couple of quarters, new car pricing, in general, has been relatively stable. But it's hard to get -- to give you great statistics on that because there has been so little activity. The new car backlog is so long that there hasn't been, particularly on the tank car side, a lot of incremental ordering. There has been a little bit more on the freight car side, but still in a historical context, orders are down.

Matt Elkott:

Got it. And then just go back to the -- I had a follow-up on the average lease term question from earlier. The uptick by three months, I guess, after three quarters -- consecutive quarters of 29 months, is that uptick associated specifically with the unique situation that you described? I think it was frac sand cars, maybe.

Tom Ellman:

Yeah. So you are highlighting that the frac sand -- the small-cube covered hoppers are the strongest individual car type. But because of the diversity of our fleet, it doesn't actually have that much of an impact either on the LPI or on that term just because it's across the whole fleet. Three months for a quarter really isn't anything other than noise.

Matt Elkott:

Got it. And if I remember it correctly, I think at the end of the last quarter you guys had less than 3,000 of those small-cube covered hoppers in your fleet. Is that correct? And has that number changed?

Tom Ellman:

Yeah. So what you're referring to is the number of cars in sand service. The number of small-cube covered hoppers is roughly double that. I had noted that the car carries a variety of commodities. And just like we do when any hot market comes along, we try to be very disciplined both in how much we invest in it and then how we deploy those assets. So we try to cover the waterfront in addition to sand, cement, roofing granules, other commodities. As far as the size of our fleet goes, it's been consistent quarter to quarter.

Matt Elkott:

Got it. Thank you very much.

Operator:

We'll take our next question from Justin Long with Stephens.

Justin Long:

Thanks and good morning. So the last couple of quarters, we've heard the message about lease rates being pretty stable sequentially. I guess frac sand is the one exception. But as we think about things going forward, what do you view as the key catalyst that can start to drive an acceleration in the lease pricing environment? And what are your latest thoughts on when we can start to see lease rates improve on a sequential basis?

Tom Ellman:

Yeah, I'll start and I'll let others chime in if they want to. That's a very difficult question to answer -- exactly when that happens. But the simplest answer is supply and demand need to come back into balance. Given enough time, fleet attrition alone would solve that problem. But in order for it to happen more quickly, you need something to happen on one of those two sides.

On the supply side, something that could help would be an increase in the price of scrap, which makes it relatively more likely that marginal cars come out of service. On the demand side, obviously, you would need some sort of catalyst. We've seen it in a small way -- a small portion of the fleet, with the small-cube covered hoppers, but nothing more broad-based. And that's something you need to see. The other thing you'd need to see is market participants would have to refrain from actions which would make the supply situation worse. Specifically, when looking at investments, you have to make sure that investing in these long-lived assets is accompanied by long-term demand for those same assets. In other words, avoid chasing the hot market, like you saw in some of the energy segments.

Brian Kenney:

Yeah. And I'll pile on -- remember, that's what got us into this oversupply situation in the industry -- was people over-ordering and over-building for the crude oil boom. And then as that didn't come to fruition, everybody repurposed those orders into different car types; and you saw widespread overcapacity in a number of car types. So it's hard enough to predict what Tom was talking about. It's really hard to predict whether competitors will be rational in their ordering or not and how fast that backlog will come down.

Justin Long:

Okay. That's helpful. And it sounds like when you put it all together, at least this year in your guidance, you're not assuming any sequential improvement. But do you think there's an opportunity for things to kind of fall in place and see an improving lease rate environment in 2018? Or do you think it will be longer than that?

Brian Kenney:

Well, I don't think it's changed from what I said at the beginning of the year which is, we don't see it happening in 2017, highly unlikely. 2018 will be tough as well. It could, depending on some of these factors. The other thing to remember about our LPI, not only should you not look at it quarter-to-quarter because it's an index with constant weightings and sometimes certain transactions can drive that index. So you need to look at it over a longer term. But the other thing we're working against, as far as the LPI, is the expiring rate is getting higher as we march forward in time due to what we did during the upturn. So that's why we don't focus so much on LPI quarter to quarter. And we're not high-fiving each other because it went from 30 to 20 in the second quarter.

Justin Long:

Makes sense. And then as a second question, I wanted to ask about the Portfolio Management segment. This can be a pretty tough segment to model and we've had some recent changes in the segment as well. So I guess first question, is the segment profit we've seen in the first half a good run rate to think about as the new baseline for this business? And as a follow-up to that, how should we be thinking about the long-term growth in Portfolio Management segment profit over the long -- I guess, over the longer term?

Bob Lyons:

Justin, I'll work backwards on that. The long-term growth in segment profit within Portfolio Management is going to come on the Share of Affiliate line. That's the investment in Rolls-

Royce. Longer term -- that is the primary driver of Portfolio Management. And on that front, through the first half of the year, Rolls-Royce has had an excellent year. And I'm very encouraged by the amount of investment volume that we've seen and will see at Rolls-Royce this year in that JV. We came into the year expecting probably $180 million to $200 million of new investment volume there. We'll probably do more, like somewhere in the range of $250 million.

But as I think about that segment longer term, the line to focus on is the Share of Affiliates' pretax income -- that will be the big driver. Marine operating revenue and marine operating expenses, they will not generate substantial segment profit contribution longer term. And the other residual assets in that portfolio, we continue to sell down as we did in the second quarter.

As far as the run rate goes, second quarter would be a relatively good barometer, but also note that we had a pretty sizable residual sharing fee within Portfolio Management of $8.7 million in the second quarter. That will not repeat. That was a residual share out of the managed portfolio. There's not a lot left there. So as you think about the business going forward, I wouldn't anticipate contributions of that magnitude. So really just focus in on the JV line.

Justin Long:

Okay, great. Very helpful, appreciate the time today.

Bob Lyons:

Thank you.

Operator:

Our next question comes from Mike Baudendistel with Stifel.

Mike Baudendistel:

Thank you. You mentioned earlier that you're receiving some boxcars back from CSX. And just wanted to see if you could comment on any other impacts you're seeing from CSX. I listened to their call yesterday. It sounded like they were going to take out about 60,000 railcars out of their inventory, about 900 locomotives. And just wanted to see if you think that's going to have a big impact on the leasing environment.

Tom Ellman:

Yeah. So, primary impacts, the question is very easy to answer. We have virtually no cars left with CSX. So all the impact that we're going to see in our fleet, you've already seen. As far as what that means for the larger environment, it's difficult to say. What it resulted in, in the boxcar arena -- again, the traffic has to move, so we're seeing inquiries from others. So hopefully, more of that will occur. In general, a robust rail market is good for us. So hopefully, net results of all this, it results in a more efficient network and cars would have to move and we'll benefit from that.

Mike Baudendistel:

Okay. Good. And just also wanted to ask you, you mentioned that the small-cube covered hoppers are stronger than some of the other car types. But is there any difference at this point in terms of leasing supply and demand between just freight cars and tank cars? I think in the last couple of conference calls you talked about freight cars maybe being a little bit more favorable.

Tom Ellman:

Yeah. So there is more activity going on in freight cars. And I had mentioned that small cubes were particularly attractive on the new car side in the lease rate environment. One of the things that's happened though, is because people preordered so many of those -- some of that ordering before this recent uptick in sand occurred, is people started switching some of those orders to other freight car types. Much easier to switch from one freight car to another freight car than from a freight car to a tank car. So across the board on freight cars, there's this overhang of new car supply coming. So even though there's more activity there, I wouldn't really differentiate between the rate environment in tank versus freight, other than small-cube covered hoppers.

Mike Baudendistel:

Got it. Thank you, that's all I had.

Operator:

We'll take our next question from Matt Brooklier with Buckingham Research.

Matt Brooklier:

Thanks, good morning. You answered the question with respect to CSX on the railcar side. I know it's a smaller portion of your business. Do you have any locomotive exposure with CSX?

Tom Ellman:

No.

Matt Brooklier:

And then just getting back to the LPI and the change and kind of the unique renewals that transacted during 2Q. Can you give a little bit more color in terms of what were the contributing factors? Was it a lower base of, I guess, rent that was resetting? Was it a function of higher rates on maybe some cars in 2Q? Just trying to get a better feel for what the unique situation was in 2Q.

Tom Ellman:

Yeah, I'm sorry. I missed the beginning of the question.

Matt Brooklier:

Yes, I'm just trying to get a feel for -- or more color on the LPI and the unique, I guess, renewals in the quarter that helped you sequentially put up a better number than what you did in first quarter.

Tom Ellman:

Yes, I'm sorry, it's LPI, that's the part I missed. So what's going on, as we mentioned in the opening comments, it's just a couple of transactions. And I can't get into the unique circumstances of each one. But essentially, the unifying factor is that there was something about the asset itself that made it difficult to replace with a different type of asset. So there was unique ability to get price. And because of the way the LPI works, a few transactions get applied to the car types in question and you see a bump caused by a relatively small number of transactions. But the underlying issue is just that the asset was unique for the need of the customer.

Matt Brooklier:

Got it. And that I think the guide for this year is an expectation for LPI to be down about 30%. Is that still a good number to think about for '17?

Tom Ellman:

Yes.

Matt Brooklier:

And then you also talked to -- sequentially rates are roughly flattish. The small cube market, it sounds like it got a little bit stronger in 2Q versus 1Q, everything else kind of flat. Were there any car categories that potentially weakened on a sequential basis during the quarter?

Tom Ellman:

Yeah. As far as during the quarter, things were pretty stable. Some of the weaker car types, in general, ones we've talked about before -- our legacy flammable liquid cars, high pressure cars, coal cars. But when you talk about what happened in the quarter itself, I wouldn't say anything appreciably changed.

Matt Brooklier:

Okay, that's helpful. It's all I've got, thank you.

Operator:

(Operator Instructions) We'll take our next question from Steve O'Hara with Sidoti & Company.

Steve O'Hara:

Hi, good morning.

Bob Lyons:

Good morning.

Steve O'Hara:

Just on the LPI. I mean, you touched on it a bit. I mean, I know you said rates were stable and you have kind of a -- the expiring rates are increasing because of, I guess, the positive work done in the upswing. If rates remain stable, when does the LPI go positive?

Bob Lyons:

Yeah. We talked about that at the beginning of 2017 at our fourth quarter call. We said definitely not in 2017, and we're seeing that, and certainly not in 2018. It didn't feel that way. Beyond that, there's too many factors at play to really weigh in. In terms of what happens after 2018, it'll still be a challenged comp in 2018 because the average expiring rate goes up again in 2018. But there'll be a number of factors at play beyond that, including the industry dynamics being the big one and how that plays out.

Brian Kenney:

And the other issue that we can't be so exact -- not trying to evade the question is, we're doing a lot of short-term renewals, as Tom said, because the market is weak. So that will start to influence that expiring rate next year. So if we do a tremendous amount of short-term renewals in coal and next year the coal rate goes up a little bit, you could see a change in the LPI that we didn't anticipate at this point. So things change over time depending on how you're renewing your leases today.

Steve O'Hara:

Okay. No, that makes sense. Thank you. And then just on the -- you talked about you generally go to market, I think, with a package at the end of 3Q or in 4Q. I mean, is that currently based on -- is that within the expectations of the current guidance or would that be upside if you did do that; and kind of add, kind of a, historical success there based on the ...

Bob Lyons:

We're not factoring in any significant sales in the second half of the year.

Steve O'Hara:

Okay. But you typically go to market in the second half with something?

Bob Lyons:

With the last couple of years, that's been the case, but it moves around. As you can tell, this year, it's been more front-end loaded because the market has been -- the demand has been there and we've capitalized on it.

Steve O'Hara:

Yes. Okay. And last year it was too, I guess?

Bob Lyons:

Yeah.

Steve O'Hara:

Okay. And then just on the -- within the Portfolio Management segment. I mean, I know you had said that most of that would come from Share of Affiliate on the income statement or down below. I mean, is there an effort or -- I'm sure there's an effort, but what's the outlook for that segment in terms of what gets that back to better than breakeven or so kind of on the operating income line?

Bob Lyons:

On the Marine operating income?

Steve O'Hara:

Yeah, in other words, within the portfolio.

Bob Lyons:

Yes. There's two factors that work there when you look at 2017 versus 2016: one, is remember in 2016, we sold five vessels -- our chemical parcel tanker vessels that we had owned for years. We sold those throughout 2016. So some of that drop in revenue that you see in '16 to '17 is just the absence of those vessels. All we have left is five LPG/LNG vessels. They've also seen some revenue contraction this year -- just given some challenges in their marketplace. But good year or challenged year, they're not going to be a significant contributor to segment profit at Portfolio Management. And we continue to weigh the best long-term alternatives for us in those vessels.

Steve O'Hara:

Okay. Okay. And then just finally within Portfolio Management. I mean, I know there's been a lot of changes in the engine market and the engine technology. Can you talk about how that evolves with Rolls-Royce and maybe what the outlook is there as the Next Gen engines become more intertwined into the fleets globally?

Bob Lyons:

Well, our growth outlook within the joint venture is very attractive in terms -- if you look out over the next 10, 15, 20 years and the expected growth in global aviation -- the number of aircraft on order and just the pure mathematical number of spares that have to sit behind all of those installed engines over the next number of years that, that will be significant growth, as you note. Our portfolio is primarily focused on Rolls engines, almost entirely on Rolls engines, although we're not averse to buying engines in the secondary market outside the Rolls family. But even there, really good diversification across the XWBs, the Trent 700s. We still have a very sizable portfolio of V2500s serving the A320 market. So we think there's substantial opportunity there long term. The portfolio today is about $3.2 billion in total assets, just over 400 engines. And that started as a joint venture back in 1998 with a $300 million portfolio in total. It's 10x that size today.

Steve O'Hara:

Okay. Okay. Alright. Thank you.

Operator:

Our next question comes from Justin Bergner with Gabelli & Company.

Justin Bergner:

Good morning, everyone.

Bob Lyons:

Good morning.

Justin Bergner:

In terms of the flat, I guess -- lease rates sequentially, I guess, now for a couple of quarters in a row in tank and freight, I mean, that seems like a sort of, perhaps unusual phenomenon just to see, sort of sequential flatness for a couple quarters running. I think you sort of talked about what's constraining the rates from going up in terms of the excess supply. What's constraining the rates from going down?

Tom Ellman:

Yeah. So the key factor there is the supply-demand situation has been fairly consistent over time. So the overhang hasn't come down enough as we mentioned to take the rates up. But the alternatives for the customers that need to move the commodities -- lease rates at this level are still better than their next best alternative, so they hang in that level.

Justin Bergner:

Okay, that makes sense. And what would the next best alternative usually be?

Tom Ellman:

Usually, it'd be leasing the car from somebody else.

Justin Bergner:

Okay. And I want to clarify one comment you made earlier about customer switching. It might have come at me a bit fast, but in terms of switching either between freight and tank or among freight cars, could you maybe just run it by again, sort of how the customers are switching?

Tom Ellman:

Sure. What I was referring to, specifically, is cars in the backlog-- new car backlog. So a customer had ordered some small-cube covered hoppers in anticipation of demand. When the sand market weakened, they didn't need those cars. So they would go work with the builders and either try to defer that order or build another car type in its place. From a builder perspective, switching from a sand car to another freight car type, another non-tank car, is much easier than switching from a sand car to a tank car. So you saw some switching in things like grain. You didn't see switching to things like tank cars.

Justin Bergner:

Okay, that makes sense. So switching between or from tank cars to freight cars is not one of the factors that's sort of helping the tank car market stay stable. It's sort of staying stable without any benefit from switching in the order book.

Tom Ellman:

Correct.

Justin Bergner:

Okay. And then just quickly questions on some other areas. The international profit -- Rail International improved year on year. And it seemed to be at pretty good levels. Is there anything that sort of stood out there? Should we expect sort of a higher sustained level going forward?

Brian Kenney:

Well, the real issue in Rail International, so in the quarter -- I think income was up $3 - $3.5 million, and the year to date, $4.5 - $5 million. Really, the quarterly improvement is driven by lower maintenance expense. As I indicated coming into the year, 2017 is a lighter year from a scheduled tank revision perspective, less under frame revision. They're also experiencing lower wheelset costs, both refurbishment and purchase of wheelsets from 2016. So maintenance is really what's driving the positive story year over year. Revenue is higher, but it was essentially offset by the stronger dollar in the first quarter of 2017. So we are still placing new cars, revenues going up in euros, but we do have the drag of a tougher FX comparison in the first quarter.

Justin Bergner:

Okay, got it. And then just finally, the $10.5 million net gain on asset disposition in Portfolio Management driven by the residual sharing income, is that sort of an amount that's in line with what you expected when you gave your earnings guidance earlier points in the year?

Bob Lyons:

Yes. Very much so, yes.

Justin Bergner:

Okay. Thank you for taking my questions.

Operator:

Our next question comes from Gordon Johnson with Axiom Capital Management.

Gordon Johnson:

Hey, guys. Thanks for taking the questions.

Bob Lyons:

Sure.

Gordon Johnson:

With respect to the remarketing income -- correct me if I'm wrong, but you guys are saying that the $46 million, roughly, that you've recognized thus far this year, we're not going to see any significant incremental income to the remainder of the year?

Bob Lyons:

It won't be anything on the magnitude we saw on the first half of the year -- that's for sure. We still -- we came into the year expecting Rail North America to be somewhere in the range of $35 to $40 million. We're at $32 million through the first six months. And our expectation, as Jen pointed out in the opening comments, still in the $35 to $40 million range for the year.

Gordon Johnson:

Okay. Okay, that's helpful. And then with respect to the LPI -- the guidance is, I guess, down 30% for the year. There was a slight, I guess -- this temporary or onetime item in the second quarter. So should we expect or should we see this as the second half being slightly or modestly worse than you expected before, given you had this benefit in the second quarter and you're still reiterating the down 30%?

Tom Ellman:

Again, when you try to call the LPI, particularly for a quarter -- that level of precision just isn't there. I would say that the second half of the year and the year in total, our expectations have not materially changed.

Bob Lyons:

Yes, and we said in the range of down 30%. So there is some band around that.

Gordon Johnson:

Okay, that's very helpful. And then clearly, sand cars have been strong. It seems that the efficacy of -- or the use of sand for frac drilling has increased, but oil prices have come back down. So do you guys see any change in sand car demand looking out the next maybe 2 to 3 months or maybe 3 to 6 months? Or do you see things continuing along as you've seen them thus far? And then one last question.

Tom Ellman:

Yeah. So as far as in the near term, we continue to see strong sand demand. The more interesting question for the car type is what happens on the supply side. So what you've seen a couple times now is an increase in demand, a lot of cars get built and then too many get built. But the industry gets saved because they keep figuring out a way to put more sand into the individual well. So certainly, the industry will respond. The question is, to what degree and do we see another overbuild.

Gordon Johnson:

Okay. And then just lastly, there are lot of questions on what could potentially drive upside to lease rates. It seems like clearly lease rates have been stable for you guys, not just this year, but next year. Is there anything you guys see out there that could potentially drive downside to lease rates looking out, not just this year, but next year? Again, thanks for the questions, guys.

Tom Ellman:

Yeah. So from a Karma perspective, you never want to say nothing. But one of the things that really helps is that the alternative for a customer to switch is -- it's expensive. It costs money to return one set of cars or change mode or do whatever you might have to. And at lease rates at this level with the oversupply that we've seen, it's -- to the degree that people could do something different, I think largely it's happened. Of course, in pockets for an individual car type anything can happen, but this level, given the oversupply we've seen, is pretty low.

Gordon Johnson:

Thanks again.

Bob Lyons:

Thank you.

Operator:

And that concludes today's question-and-answer session. At this time, I will turn the conference back to Jennifer McManus for any additional or closing remarks.

Jennifer McManus:

Thanks, everyone, for their participation on the call and please feel free to contact me with any follow-up questions. Thank you.

Operator:

And that does conclude today's conference. We thank you for your participation.