



## 2018 First Quarter Conference Call

April 19, 2018

### Operator:

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

### Jennifer McManus:

Good morning, everyone, and thank you for joining GATX's 2018 First 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 those statements or forecasts. For more information, please refer to the risk factors discussed in GATX's Form 10-K for 2017. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Before I get into the numbers and provide brief commentary on the quarter, I'd like to remind everyone that our Annual Shareholders' Meeting will be held on Monday, April 30. It will be in downtown Chicago at the Northern Trust Building, which is at the corner of LaSalle and Monroe. The meeting begins at 12 p.m. Central Time, and slides from Brian Kenney's presentation will be posted to our website at [www.gatx.com](http://www.gatx.com).

Earlier today, GATX reported 2018 first quarter net income of \$76.3 million or \$1.98 per diluted share. This compares to 2017 first quarter net income of \$57.5 million or \$1.44 per diluted share.

Now I'll briefly address each segment:

Rail North America's fleet utilization remained stable at 98.2% at the end of the first quarter, and our renewal success rate was 76.7%.

During the quarter, the renewal rate change of GATX's Lease Price Index was negative 11.6%, with an average renewal term of 34 months. As indicated in the earnings release, the sequential improvement in the LPI is a result of quarterly volatility, which is not uncommon. We still anticipate the 2018 annual change to be at least negative 25%, as the current lease rate environment remains challenging.

We continue to successfully place cars from our committed supply order with nearly 5,900 railcars placed from our 2014 agreement. We have already placed scheduled deliveries with customers through the end of 2018.

The secondary markets for railcars in North America remain robust. Rail North America's remarketing income was approximately \$50 million during the quarter, representing the vast majority of our expected remarketing activity for 2018.

Within Rail International, the European tank car leasing market remains stable. GATX Rail Europe is seeing steady demand across the fleet with utilization of 96.7%.

Rail International's investment volume was approximately \$29.5 million during the first quarter, most of which was at GRE, but we also saw increased investment in India.

American Steamship Company's sailing season started in late March, and we are off to a good start on the Great Lakes. We still anticipate 10 vessels in service in 2018.

Portfolio Management's results were driven primarily by the solid performance of the Rolls-Royce & Partners Finance affiliates. Our spare aircraft engine fleet utilization remained strong, and our diversified engine mix continues to grow.

GATX was active under our share repurchase authorization during the quarter, buying back nearly 366,000 shares for a total of approximately \$25 million.

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

## QUESTIONS AND ANSWERS

### Operator:

(Operator Instructions) The first question will come from Prashant Rao with Citigroup. Please go ahead.

### Prashant Rao:

I guess the first one, which you guys probably expected -- and we're getting a lot of questions from investors on, is the LPI movement. And so, I just wanted to maybe get a little bit more color on how you would caution us into reading too much into that. And maybe also -- maybe contrast that with what you're seeing -- actually, market lease rates right now. I think we've indicated in the last call, Brian, that we're starting to see things move slowly in the right direction, but very low single digits. So maybe a little bit more color there would be helpful, too? Thanks.

### Tom Ellman:

So I'll start -- this is, Tom, and I'll start with the LPI. So you're right, the LPI came in at negative 11.6% for the quarter. And something we always caution people on is not to read too much into the LPI for a single quarter. In this particular case, the LPI relative improvement was driven by a relatively small number of transactions that had an especially low expiring rate. So the -- and we'll talk about market lease rates next. But the market lease rates were pretty flat quarter-to-quarter, maybe up as little as about 5%. But the expiring rate of certain transactions was low, so it made the change of old-lease rate to new-lease rate a little bit smaller than it has been in prior quarters. So again, I wouldn't read much into that negative 11.6%. The much more relevant fact is what's going on with lease rates quarter-to-quarter, which is barely above flat.

### Brian Kenney:

I'll just add that, that's exactly right. Tank and freight were both up low single digits in the quarter versus the last quarter. Now they're up significantly year-over-year. But remember, they're coming off extreme lows last year. And a lot of that was driven by flammable cars coming off extreme lows. So, although they're improving slowly, it's still well below what we think of it -- the long-run average rate that produces an attractive return for our investment model. So there's still too many existing idle cars, still too many new cars delivering. If you look at how low they are compared to what we would term a long-term average rate -- and let's exclude coal because we don't think there's really going to be a systematic recovery there. Both tank and freight are probably down 25% from where they need to be long term. And that doesn't mean we won't order cars or invest into an environment like this, but it means rates do have to increase by that amount for that investment to be attractive over its life. Maybe that's an obvious point, but still too low.

### Operator:

Thank you for your question. The next question will come from Allison Poliniak with Wells Fargo. Please go ahead.

### Allison Poliniak:

Hi, guys. Good morning. So, just following on that. I think that down 25% that's off of a normalized rate that you would say? Or is that off of the historical high? Just trying to get context.

### Brian Kenney:

If you look at the historical high, which was in this last upcycle, they're down 50% or more for most car types. But you can't read too much into that because those were incredible highs, historically unprecedented, and we locked them in for a very long term. So I wouldn't really worry too much about off the highs. Off the long run, average rate is -- once

again, what we think the rate needs to be over the life of the car for it to be an attractive investment. So that's where I'm saying they still need to move up about 25% from today's level.

**Operator:**

Thank you for your question. The next question will come from Justin Long with Stephens. Please go ahead.

**Justin Long:**

I wanted to ask about the stabilization that we have seen in the North American market over the last year or so, these kind of flat-to-slightly-up rates. How much of this would you attribute to slower train speeds on the rail network and some of the congestion that we've seen? I just wanted to get your big picture view on how much of this cautious optimism on the market is a function of these operational demand drivers versus more fundamental demand drivers in certain end markets.

**Tom Ellman:**

So, rules of thumb are dangerous, but I'll give you a rule of thumb. The rule of thumb is 1 mile per hour for train speeds translates into about 50,000 cars. Now that varies by car type. So, if you look at the relative improvement in cars that haven't moved within 60 days over the last quarter, that can all be explained by decreased railroad operating metrics. So, if you look at what's going on with loadings, loadings have been upped very, very modestly the past few quarters. But a piece of that is what's been going on with coal, which as Brian said earlier, really doesn't translate to overall operating performance because whether the car is moving or not, it's at a very low lease rate. So the metrics as far as cars being used almost totally explained by railroad operating metrics.

**Brian Kenney:**

The way I'd wrap up this discussion on lease rates -- yes, lease rates have to move up for an investment to be attractive over its life, but

that can happen really quickly. And the best example is just over the last year on small-cube covered hoppers, where they were well below the 25% level that they needed to increase, and it got there in the space of two quarters. So, once there is that demand catalyst, things can move in a hurry. We just haven't seen a demand catalyst, a widespread demand catalyst, for the fleet.

**Operator:**

Thank you for your question. The next question will come from Bascome Majors with Susquehanna. Please go ahead.

**Bascome Majors:**

I wanted to drill down a little more detail on your broad-based commentary about lease rates being 25% below where they need to be for real re-investable returns from your perspective. Yes, I know you guys have very kind of micro buildup of this metric, I think you do internal measures of a 100-plus car types of what your long-run equilibrium was. Other than the frac sands car as you mentioned earlier, are there other green shoots where you're seeing some car types move into the re-investable range? Or is it really pretty broad-based everything, with very few exceptions as well below where it needs to be?

**Brian Kenney:**

Yeah, before I let Tom go on that -- once again, it doesn't stop necessarily from investing. All I'm saying is, rates need -- we are investing today, but rates need to move up for those investments, and we think they will slowly, for those investments to be worthwhile over the life of the car. But go ahead, Tom.

**Tom Ellman:**

So as you point out, every situation we talk about varies by car type, and you did -- you already mentioned small-cube covered hoppers is a positive story in terms of lease rates right now. Couple other ones are cars that move steel -- either covered coil gons that move finished steel or mill gons that move scrap steel. Those are both performing

particularly well right now.

Centerbeams, which have been struggling for quite some time, have recently improved and rates are going up there. And even within the core tank and covered hopper fleet, there's a lot of variability.

We spend a lot of time talking about energy-related tank cars, which are struggling, but the non-energy-related tank cars -- I would describe them as holding their own. They're still below re-investable levels, but the rates are relatively better. And -- so basically, if it's a tanker covered hopper with a notable exception of small cubes, which are doing well -- if it's related to energy, it's struggling. If it's not related to energy, it's doing a little bit better.

**Bascome Majors:**

I appreciate that detail. And as we look forward, we -- you talked -- you've been pretty candid over the last couple of quarters about how quickly it can change. When do we get to the point in the cycle where it starts to make sense, not necessarily for yourselves. You already have a multi-year order in place, but when we see that sort of early cycle investment in speculative new-car positions from the operating lessor, broadly?

**Brian Kenney:**

Yeah. It's like I'm struggling to get this point across. It doesn't mean you don't invest, because we do think rates are underway with a very slow recovery, so it doesn't necessarily preclude you from investing. We focus more on when to invest; about when we can get the best deal from a manufacturer in terms of car cost and margin. And usually, that's done when the market is depressed like it is today. So --

**Bascome Majors:**

Thank you for that -- [Multiple speakers]

**Brian Kenney:**

Go ahead --

**Operator:**

Thank you. The next question will come from Matt Brooklier with Buckingham Research. Please go ahead.

**Matt Brooklier:**

So just a question on the asset dispositions in the quarter. What are your expectations within the North American business with respect to further sales through the year, and I think you implied that there could be more. But then again, you did a big number in first quarter, so just trying to get a feel for what maybe the rest of the year looks like?

**Bob Lyons:**

Sure. While we -- this is Bob Lyons. So we came into the year, back in January, and said we would be in the \$50 million, maybe a little north of that range for North American remarketing income. That's where we ended up for the quarter. That's a combination of, obviously, the sales package that we had out during the quarter, plus some carryover of 2017 transactions that closed this year. So we'll continue to gauge the market for opportunities. And while we don't anticipate any major sales, there could be some activity during the balance of the year, but nothing significant planned at this point in time. Now, we have our process that we adhere to, which is built around fleet optimization and generating the maximum long-term return for our shareholders. So because of that, the vast majority of cars that we have in our fleet, we want to continue to own, and will own, long term. So we don't have an abundance of cars lying around as candidates for sale. That said, we'll continue to test the market and check our valuations versus hold value, and we'll see how the balance of the year plays out. But nothing major planned at this point.

**Matt Brooklier:**

Okay, that's helpful. And then just any color on types of cars that you sold, if you were overweight a certain car type, in terms of the activity in first quarter, that'd be helpful.

**Bob Lyons:**

Yeah, we really don't get into a lot of detail, and historically have not, about what types of cars we're selling, that's not something we're usually tipping our hand with, with the market. So I would say, just to keep in mind, half the fleet is tank and half is freight. Typically, sales occur out of the freight side of that equation, and that was certainly the case over the course in the first quarter. But getting in the specifics, not something we're going to get into too much detail, given our thought around fleet optimization and what may come later.

**Matt Brooklier:**

Okay. Appreciate the time.

**Operator:**

(Operator Instructions) The next question will come from Matt Elkott with Cowen. Please go ahead.

**Matt Elkott:**

Good morning. Thank you for taking my question. This question is maybe for Bob. So, you had a revenue decline in the quarter, which was expected, but operating expenses increased a bit as well. Bob, can you give us some color on what caused that. And what -- where you see the margin outlook going forward for the remainder of the year?

**Bob Lyons:**

Sure. Well, first of all, from a -- we don't really think in terms of a margin perspective here. So, with regards to an operating margin, that's not a concept that we -- not a metric that we use here internally. From a revenue perspective, yes. The North American lease revenue was down about 3.5% quarter-over-quarter Q1 '18 versus Q1 '17. That's right in line with what we said it would be likely for the year. For the full-year basis, we thought we'd be down in that 3% to 4% range, so that did play out in the first quarter. And as far as operating expenses, if you could give me a little bit more color around which line item -- I

can give you --

**Matt Elkott:**

I was looking on a year-over-year basis. And I did -- one of the things that I noticed was maintenance was up from 1Q '17. Depreciation was up, but I think that's easier to understand but, maybe maintenance?

**Bob Lyons:**

Yes. And actually, the North American rail maintenance line was only up less than \$1 million Q1 '17 versus Q1 '18. The bigger items - - the depreciation line item, obviously, the fleet's a little bit larger today from a net book value standpoint than it was a year ago. So, your depreciation number is going to run a little bit higher. That's really -- if we look at total expenses off the income statement for Rail North America, actually, we're the -- almost exactly the same last year as they were this year. Rail International numbers were up a little bit. Some of that driver, more than anything else, on the expense line was FX.

**Matt Elkott:**

Got it. That's very helpful. And just one quick question. Would you guys be able to share with us how many cars you came off lease and were renewed in the quarter?

**Bob Lyons:**

It would be ratable over there. We came into the year with about 13,900 cars scheduled for renewals. There's really no seasonality to that. It occurs pretty evenly during the course of the quarter. So you could divide that number by 4, and get really close to where we were in the quarter. And the renewal success rate was solid for the quarter for sure, it's just a little north of 76%. So again, very strong commercial execution by Tom and his team.

**Matt Elkott:**

Got it. And maybe just one quick larger picture question -- we're talking about very modest sequential increases in lease rates so far. It's

becoming somewhat hard to understand why it's not improving at a higher rate. I mean, we've had this rail recovery for over a year now; freight markets in general are very robust; rail service has been suffering for the last couple of quarters. The macro environment's been very strong. I understand the backlog is still solid, and the build is still solid, but I would have thought that we'd see more pronounced improvement, at least on a sequential basis, in spot lease rates. Any theory that you guys have as to why that hasn't happened yet?

**Tom Ellman:**

Yeah. Actually, we can go beyond theory. What it all comes down to is how many -- what availability there is for alternatives for shippers.

And there's two sources of availability that are keeping lease rates low. The most important of which is competitor idle cars. So, for virtually every opportunity that comes up, somebody other than GATX, has cars available. Our utilization -- our cars are deployed, but there are cars available in the market. Secondly, new car alternatives exist. The backlog continues to be long and largely unplaced. Additionally, someone can get a new car in a short period of time. For the vast majority of car types, delivery is still available in 2018. So, when there's alternatives available to renewing the car, it keeps the lease rate down.

Now, fortunately, because of some of the measures that you note, the customers who have cars need them. So as long as we price to market, we can keep the car placed, so you see the good renewal percentages. And we can keep the car utilized, so you see the good utilization. But you have to price to market, which keeps that lease rates stubbornly down.

**Brian Kenney:**

And I pile on by saying, railcar manufacturers aggressively are trying to sell cars in the down market. Obviously, but that behavior is often to the detriment of lessors. And that's the case even when the manufacturers have a captive lease fleet. So, that's hard for us to

understand. So, that behavior is present in the market today, it holds down lease rates. And, ironically, I think it further depresses the values of the railcars that manufacturers are trying to sell. So what you don't see in this industry is railcar manufacturers perhaps being as cognizant of the aftermarket values of their assets with the same discipline you see in other manufacturing industries like aircraft or the construction industry and that's hurting lease rates.

**Matt Elkott:**

Do you think that may be a function of lack of another round of consolidation in the -- I mean, you mentioned the airline industry -- there is one or two airline manufacturers, or three. We have the railcar industry, there's seven railcar manufacturers in North America. I guess another round of consolidation could be helpful.

**Brian Kenney:**

Yeah, okay.

**Bob Lyons:**

[Unintelligible] [Laughter] Since we are not a manufacturer.

**Brian Kenney:**

I encourage you to get on those calls, though and express your opinion. [Laughter]

**Matt Elkott:**

I'll try to make that comment on the manufacturer call. But -- [Laughter]

**Bob Lyons:**

I think you may have dialed into the wrong call. [Laughter]

**Matt Elkott:**

Thank you very much for your time.



**Bob Lyons:**

Absolutely. Thank you.

**Operator:**

Thank you. The next question comes from Mike Baudendistel with Stifel. Please go ahead.

**Mike Baudendistel:**

I wanted to ask you on the Rail International segment. I mean, it sounds like in that segment, there'd be an area where the leasing market is above investable levels. And maybe can just talk about any opportunity you see there, either from rising lease rates or from adding cars into the fleet?

**Brian Kenney:**

Yeah, sure. I'm glad you asked that because for -- really for the last 10 years, GATX Rail Europe has performed very well, and the market is -- hasn't been very good. As you know, it's an all-tank car fleet over there, and petroleum or mineral, as they call it, is our biggest sector with about 60% of the fleet.

So, when the price of oil went down in 2015, there were further struggles there with their refinery customers. Lease rates went down -- there were a lot of idle cars in the industry, although not ours. But that all changed about halfway through last year in the third quarter. Obviously, the price of oil has gone to a more reasonable level, but we start to see more customer inquiries; more projects, more requests for additional cars. And, remember, through all this, diesel and gasoline consumption in the main European markets have continued to increase.

So GRE's been doing very well in that market, they've placed all their new deliveries. The cars that were returned were either scrapped or remarketed, many in Eastern Europe, where we have a very strong presence. They had a very high renewal success rate in petroleum fleet in the quarter -- 87%, I think. So it is a more favorable market, in the petroleum side, in GATX Rail Europe.

It hasn't really resulted in increased lease rates for the same reasons as Tom's talking about. There are competitors with idle cars, but absolute rates actually did creep up in the quarter, just renewal rates were relatively flat. But there are other segments -- LPG, same story. They have about 17% of their fleet in LPG. Somewhat tied petroleum prices, of course, but that's been a great market for us. Once again, fleet renewals, additional cars, new LPG sources.

They introduced a new car over the last year that's been very well received -- 119 cubic meter car, which is the largest and lightest in the market. Great reception to that. And their utilization in the LPG fleet is 98%. So, we're starting to see that get better as well.

But the biggest surprise has been their chemical fleet. That's always been a tougher fleet for them, it's had utilization lower than petroleum and LPG. That changed recently as well. The European chemistry industry has shown, finally, some growth in 2017, and that started to roll through our fleet. Utilization was almost 98% in the quarter. That's the highest I've seen it, and absolute rates and renewal rates were both up in the low single-digits.

So, we're definitely seeing a better market in Europe. And as far as the investment side, we had dialed that back the last two years from what it was, but you will see increased investment in 2018 at GATX Rail Europe, probably in the 1,000 car plus over EUR 100 million range.

**Bob Lyons:**

Yeah, just to add to that on that last point. In 2017, Mike, we did about EUR 80 million of investment volume at GATX Rail Europe. And this year, as Brian said, north of EUR 100 million is the expectation. So a nice uptick there and reflective of all the comments Brian made.

**Mike Baudendistel:**

Great. Thank you very much. That's all I had.

**Operator:**

The next question will come from Justin Bergner with Gabelli & Company. Please go ahead.

**Justin Bergner:**

Good morning, Brian – and Bob, as well. And I guess first question would be in the comment on guidance saying that the year is progressing as we expected. Is there anything that's not progressing as expected that would highlight, positive or negative?

**Bob Lyons:**

No, I really wouldn't. I think when we sat around collectively and worked through the quarter, and the numbers and where they all played out for the quarter, there were no real surprises in there, up or down.

**Brian Kenney:**

Yeah, that's through the first quarter. The thing we didn't anticipate, of course, is steel tariffs, and the impact that might have on our business in 2018, which is hard to tell. But obviously, we have a few billion pounds of steel rolling around, and higher steel prices generally are good for the value of that fleet. So we'll see how it rolls out.

**Justin Bergner:**

Great. That's helpful. My second question was actually on steel prices. And you mentioned sort of the steel value of your fleet. Are higher steel prices at a point where you think it could help bring more rationality to the market by encouraging scrappage of some of these excess railcars, or are we not there yet?

**Tom Ellman:**

Yeah. So, the short answer is, we're not there yet. The trend is in the right direction. Steel is up and as each car comes into the shop, a decision is made -- what are the cash flows if you scrap versus what are the cash flows if you continue to run it. So, as any increase in steel helps on the margin, but the large-scale

scrapping that would have to occur to help get supply and demand back into balance, you need to see steel prices higher and for longer.

**Justin Bergner:**

Okay. Is there like a scrap price that you think of as sort of a threshold?

**Tom Ellman:**

Not really. The highest it ever got was, I think, \$500, and we're in the mid-3s. So somewhere between there would be helpful.

**Bob Lyons:**

And we have been in the low 2s at one point. So, as Tom said, any direction up is helpful.

**Justin Bergner:**

Okay. And the last question was on the Rolls-Royce JV. Was it mainly -- I mean, there was another good quarter of good performance, was that due to remarketing income within the JV or was it non-remarketing drivers?

**Bob Lyons:**

It was actually both, Justin. So I would say, of the increase year-over-year, 2018 Q1 to 2017 Q1, it was about evenly split between some increased remarketing activity, but also operationally -- a nice improvement too, with continued high utilization, some uptick in lease rates and just better performance overall in the portfolio. So it's evenly split.

**Justin Bergner:**

Okay, great. That's it for me.

**Operator:**

Thank you for your question. The next question will come from Willard Milby with Seaport Global Securities. Please go ahead.

**Willard Milby:**

Hey, good morning everybody. Actually, if I



could stay on the JV and the utilization. Obviously, the FAA is ordering some engine inspections for the type that was on that Southwest flight. Didn't know if you all have, off the top of your head -- your exposure to that engine type, and whether or not you think that, that will impact the business positively or negatively. I know it's been real short notice since this has occurred, but if any kind of comments you might have there?

**Bob Lyons:**

Yes, we don't have an exposure to that engine type. So no risk at all to the portfolio there. And given the type of fleet that Southwest operates, we don't see an uptick in demand from our portfolio for engines to swap in. Again, very early stages to determine what happened there, and obviously, a tragic situation, but no real impact on our portfolio.

**Willard Milby:**

Okay. And if you could switch back to railcars. On the boxcar front -- obviously, a lot more of those cars come out of storage in the last couple of months, and Saudi oil's utilization step up here sequentially. Was curious on your thought on market drivers there. Is it really the congestion driving that up or you're seeing fundamental -- increased fundamental usage of that car, market-driven usage of that car, I do think that could back to that 96%, 97% utilization in the short term?

**Tom Ellman:**

Yeah, so the majority of it is driven much more by congestion in railroad operating issues. Demand has kind of held in there, but I would put much more of it on the operating side. So it's really hard to say. At least for 2018, we would expect to at least be able to continue at the levels we've seen. It's hard to say if utilization could tick up from there.

An important thing to note on that too is, utilization only tells part of the story for boxcars. About half of our fleet are in firm fixed leases like every other car type. But about half of them earn on a per diem basis, so you earn more money as they're being

used, and we've seen significant improvement in that part of the business for exactly that reason. The cars are out there running more often than they have been previously.

**Willard Milby:**

All right. Thanks for the color, I appreciate it.

**Operator:**

Thank you for your question. (Operator Instructions) We have a follow-up question from Prashant Rao with Citigroup. Please go ahead.

**Prashant Rao:**

Sort of wanted to get your sense of -- on the energy side on the flammable car side, we've been hearing about bottleneck congestion in on the shale patch out of the Permian and more non-pipe transportation being used. We know there's some -- there's need for rail transportation demand for Canadian heavies. But it seems like there's more incremental demand drivers for rail traffic on the petroleum side. Just curious if you're seeing that read through even on an inquiry level on the flammable cars. And is that maybe incrementally helping the lease rate pick up you're talking about, or is it too early right now?

**Tom Ellman:**

That's a great individual example of the general topic that we talked about earlier in terms of underlying demand versus what's available in the market. You're absolutely correct, particularly in Canada that there's been more activity.

There's two problems: one, there's idle cars available to meet that demand; and then two, there is the additional problem of the railroad congestion there, where the CN and CP are having a difficult time moving all the cars that need to be moved in Canada already. And, there's also -- we're hearing some challenges between the shippers and the railroad on what kind of length of contract they might want to have. Nobody knows how long the rail move up there will last, so there's -- on the railroad

side, a desire to get a little bit of term out of that. And so that creates a struggle.

In the Permian, there is not a lot of railroad infrastructure to immediately meet the demand. There is some, and we've seen some inquiries in that area, but it comes back to -- there is cars available to meet it. So unfortunately, in neither case do I think you're going to see the activity translate into a material move on lease rates.

**Prashant Rao:**

Okay. Great. And then just a very quick follow up unrelated to that. I think kind of some of us have been impressed by how affiliates' income has outperformed our expectations and granted some of it could be our mismodeling as well. But I just wanted to get a sense of how strong this run rate in the total affiliates' income is? And what might be some upside drivers there or maybe -- or on the flip side, anything that you would caution in reading in our increased strengths on that line item?

**Bob Lyons:**

Sure. And again, that's almost -- it's entirely driven by Rolls-Royce, that share of affiliate line. So in 2017, we had our share of \$58 million of pretax income from Rolls-Royce. And our guidance, really coming into this year, were that we felt we would be back in that same range this year. I wouldn't, and haven't, deviated from that. We still think that's a good number to go with. We had a little bit on the run-rate basis, higher than that in Q1. But again, as I mentioned previously, we did have some remarketing activity in the first quarter and that doesn't occur evenly throughout each of the quarters. So, as of now, still think that total share of affiliate income will be in that same range we were in last year, which is a very strong return, a very good performance.

**Prashant Rao:**

Okay, great. Thanks, Bob. I appreciate it. That's all I had.

**Bob Lyons:**

Thank you.

**Operator:**

The next question is a follow-up from Justin Long with Stephens. Please go ahead.

**Justin Long:**

Thanks for taking the follow-up. I wanted to ask about the outlook for the LPI, longer term. If we assume that North American lease rates hit what's baked into the guidance for this year, and we think about the comp from the expiring rates next year, do you think there's a chance that the LPI inflects positively in 2019?

**Bob Lyons:**

We haven't commented about 2019 other than indicating previously that after 2018, the average expiring rate is similar to where it was in 2017, maybe up a little bit. And then after 2018, it begins to gradually come down a little bit. So the hurdle gets a little bit easier to clear. I don't want to comment too early on where we think LPI will be for 2019 or 2020, but it's still a pretty challenged lease rate environment out there, as Tom has indicated. So the challenges that we see despite this gradual improvement, will certainly continue in terms of the lease rate front.

**Justin Long:**

Okay, that's helpful. And then maybe to follow up on some of the commentary earlier on the railcar manufacturers. I'm curious what you're seeing in terms of new railcar pricing in the market today? Have the trends in new car pricing been similar to what you're seeing on lease rates, just kind of flat to slightly-up environments? Or has the new car pricing been more competitive than that?

**Tom Ellman:**

Yeah. So the majority of cars that we're taking are part of long-term supply agreements. And so I wouldn't say that we have enough detail to comment on general terms across the market

since most of ours is coming through supply agreements with terms that were negotiated in a different environment.

**Brian Kenney:**

Yeah. And in Europe, I think we took less than 100 cars in the quarter, so it's not a good data set. But with the price of steel, I'd be surprised if we're not seeing an increase, for instance, in Europe as we go through the year.

**Justin Long:**

Okay, I'll leave it at that. Thank you so much for the time.

**Bob Lyons:**

Thank you.

**Operator:**

Thank you. (Operator Instructions) The next question will come from Brian Hogan with William Blair. Please go ahead.

**Brian Hogan:**

Good morning. Just a few questions. One, your efforts in India and Russia -- can you give a little update, I know it's still early there, but --

**Brian Kenney:**

Yeah. So in India, things are going very well. Fairly happy with the performance of the business in 2017. The fleet is now over 1,100 cars. And, actually, there's a clear path towards doubling the size of that fleet in 2018, that's with the existing customer orders. The fleet is 100% utilized. Importantly, they diversified their fleet away from just container rakes in 2017. Now taking delivery of steel coil rakes, auto carriers and they continue to try to diversify their fleet. They have a great relationship with their customers, and the Indian Railways is, obviously, very important. And as I said, the committed pipeline is large. So we're seeing -- finally seeing real growth in that fleet in 2017. I think it'll be even more in 2018. So it's really looking much better in India after a period of years.

**Brian Hogan:**

And how are the returns compared to say Europe or the U.S.?

**Brian Kenney:**

Yeah, so that's a great question. Now, obviously, the lease rate factors are way higher and our hurdle rate is dramatically higher for investment in emerging markets. So, it looks much more profitable on a per-car basis, but I wouldn't say on a risk-adjusted basis is necessarily that much better. And I mean, in other words, if you are going to invest there, you should require a high return, and we're getting it.

**Brian Hogan:**

Right. And then Russia, any update there?

**Brian Kenney:**

Yeah. Russia at the end of the year was a very small fleet, it was 170 cars and less than \$5 million. We do have a lot more slated for delivery in 2018, but, obviously, with all the news out of there, we're going to be very careful about how we proceed in that market. And basically, in Russia, what I'll say is, if you can't -- if you're going to be in Russia and you can't do business with Russian customers, it's going to be very difficult to make a business out of it. So, obviously, we're going in there with our eyes open.

**Brian Hogan:**

All right. American Steamship, I'm getting in terms of longer term, you're -- as peers are taking market share, I guess, can you describe that environment, American Steamship? What you're seeing there competitively and the opportunity there?

**Brian Kenney:**

Yeah. It's a competitive market. We -- traditionally, we had 40% of the market, but that was -- I should say, of the capacity, but a lot of that capacity was idle. There was a lot of idle vessels. We sold a lot of those, we've

scrapped a few. We now have about 30% of the market, 12 vessels. Importantly, 6- 1,000 footers, which is the best vessel to have on the Great Lakes. But right now, like I said, that's about 30% of the market.

Tonnage, in 2018, we anticipate -- we're going into the year, assuming it's going to be lower, the sailing season is just getting underway. We have 9 vessels out there. Eventually, 10 will be deployed. Like I said, we expect, coming into the year, that tonnage will be a little lower in iron ore and limestone.

But as I said earlier, one of the things we didn't anticipate coming into the year, obviously, was steel tariffs and perhaps the effect on steel prices. One of the ways that could benefit GATX, at ASC primarily, through spot tonnage opportunities that may arise if the price of steel goes up. Every year, we seem to get spot tonnage opportunities that we don't anticipate. Largely, over the last couple of years, that's been for export volume through the Seaway. But if the price of steel goes up significantly in the U.S. and they start producing more, the Great Lakes manufacturers, then ASC, could see a benefit in terms of further tonnage.

**Brian Hogan:**

And then last question, your ROE in 2016 was -- return on tangible equity was 19% last year, it was 13% -- kind of in-line with, I believe, your longer-term target, I think, in low-teens, if you will. Midpoint of your guidance range this year is kind of around 10%-ish, I guess -- and you're talking about the lease rates being down 25% below long-term average. And obviously, the long-life assets, but I guess, what are you doing strategically with your capital to get to ROE maybe back up to the low teens over time, how to get there?

**Brian Kenney:**

Yeah. I mean, it's a great question, and it's one, obviously, we spend a lot of time on. So, I do think, over time, we're talking about where our lease rates are and where they need to be long term. As we said, we think they'll get there, it's just going to get there in a

very slow fashion, unless there's a demand catalyst that we don't currently foresee.

But you know what -- we never foresee the big demand catalyst. We didn't see the price of oil going to \$100. We didn't see ethanol taking off 10 years ago. So, it's not surprising that we don't see the demand catalyst. But we think it will get back. The market always comes back to equilibrium.

Yes, we've seen a lot of investment that we don't agree with into an already oversupplied market the last couple of years. But our view is that'll turn out poorly for people. And once they realize that, those fleets are likely to be exited -- that's what happened historically. They won't attract investment anymore, they won't attract financing anymore.

So, we do think the market will correct in North America. It doesn't mean we're not going to invest in North America, we'll just continue to do it in a very disciplined manner as we are today, and invest in other opportunities where the risk return makes sense to us.

Great example in North America was the boxcar investment we made a couple of years ago, which wasn't an asset type. That was, I would say, depressed at the time, and with very low utilization, but we saw that thing bottoming out -- and improving and sure enough, it has. So, you have to be disciplined in your investment, you have to get creative in your investment, and that's what we'll continue to do in North America as lease rates recover.

In the meantime, we'll continue to invest as we have the last few years in better risk-adjusted opportunities. So, Rail Europe, we talked about that getting better. Rail India starting to take off. Bob talked about Rolls-Royce -- those are a couple of great examples. And in the end, I think that capital allocation strategy will get ROE back up and if it doesn't, and we don't have opportunity to invest, we will return it to our shareholders, like we always have.

**Bob Lyons:**

Yeah. And on that point I would just note that in addition to doing -- since 2007, roughly \$8 billion of investment in our North American Rail, European Rail markets. We've also repurchased, as of the end of this quarter, basically \$1 billion of our own stock, over 22 million shares, while keeping the balance sheet in a really good shape and growing our net book value in our primary rail markets.

**Brian Hogan:**

All right. Thank you for your time.

**Bob Lyons:**

Thank you.

**Operator:**

Thank you. The next question is a follow-up from Willard Milby with Seaport Global Securities. Please go ahead.

**Willard Milby:**

Just want to touch back on the LPI one more time. Should we kind of expect this increase in volatility, I guess we'll call in the LPI for the next maybe a year or two. Seems to me like we should be getting increased number of these cars that already had these low lease rates with these shorter terms that you maybe booked in late '15, early '16; combined with the high lease rates that are coming off from early '14 and early '15. Was, just kind of curious your thoughts on maybe the volatility of this metric as we look out for the next year or two?

**Brian Kenney:**

Well, we still think it will be down in the 25% range this year. What Bob mentioned earlier, he's not trying to be evasive. We honestly don't know. We know what's scheduled to come off lease, and we know the expiring rate on that, but the issue is when the market is in the condition it is now, we do a lot of short-term leases. So month-by-month, we're

changing that expiring rate for 2019. So we don't have good visibility until we're almost at the end of the year of what it will be like.

So -- and the other thing I want to point out, it's almost counterintuitive, but if we invest -- or excuse me, if we renew very short term and bring that expiring rate down and it gets to be a better statistic next year, that's not -- isn't necessarily a great indicator of where the business is, right? Because if all that I'm doing is renewing very low rate leases in a positive fashion, that's not necessarily great either.

So, I think we've probably put too much stock in the LPI. It was originally intended, it's just an indication where the market's going. But when the market is depressed and as volatile as it is, it can lead to quarters like you just saw, which isn't indicative of where the market is in general, and that's the risk going forward.

So a long answer to, yeah, we think it could be volatile over the next year or two. And until demand solidifies and increases and gets more normalized, I think you'll continue to see that volatility.

**Bob Lyons:**

Yeah. And I would just add, I don't know how many folks are still left on the call, but as we try to stress to people, in none of the metrics that we provide should be taken in isolation or received too much focus on any given quarter. And to Brian's point, I think when we look out over the course of the next year, probably the data point that's just -- it gets into the mix too is the nominal improvement or a trend in rates quarter-to-quarter, really have a bigger impact on how we think about the business than LPI. LPI is simply an output.

**Willard Milby:**

Right. Fair enough. I was just seeing along the line to maybe an under- or over-reaction either to the positive or negative side, when people see maybe an 11% this quarter could be, just throwing out numbers, negative 40% next quarter, depending on what exactly is renewing quarter over the quarter. But really shouldn't look that short-term based on that

one metric when assessing the whole business.

**Brian Kenney:**

Right. Exactly. And in assessing the whole business, in this kind of market, I'd get away from the LPI on a quarterly basis for sure, and start talking, as I did get a lot of questions about -- do you still think rates are 25% below where they need to be long term, that's a more meaningful statement by us than the quarterly LPI.

**Willard Milby:**

All right. Thanks for the follow-up.

**Operator:**

And there are no further questions at this time. I'll turn the call back over to Jennifer McManus for closing remarks.

**Jennifer McManus:**

Thank you, everyone, for your participation on the call this morning. Please contact me with any follow-up questions. Thank you.

**Operator:**

Thank you. Ladies and gentlemen, this concludes today's event. You may now disconnect your lines. Have a great day.